Michigan Dept. of Treasury, Local Audit & Finance Division
496 (3-98), Formerly L-3147

# AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

| Local Government Type | Local Government Name | County |
|---|---|---|
| ☐ City ☐ Township ☐ Village ☒ Other | Mott Community College | Genesee |

| Audit Date | Opinion Date | Date Accountant Report Submitted to State: |
|---|---|---|
| 6/30/05 | 9/21/05 | |

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.

2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.

☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).

☐ yes ☒ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1-968, as amended).

☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.

☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91 ], or P.A. 55 of 1982, as amended [MCL 38.1132]).

☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.

☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 1 00% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).

☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).

☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

| **We have enclosed the following:** | Enclosed | To Be Forwarded | Not Required |
|---|---|---|---|
| The letter of comments and recommendations. | X | | |
| Reports on individual federal financial assistance programs (program audits). | | | X |
| Single Audit Reports (ASLGU). | X | | |

| Certified Public Accountant (Firm Name) | | | |
|---|---|---|---|
| Plante & Moran, PLLC | | | |
| Street Address<br>111 E. Court Street, Suite 1A | City<br>Flint | State<br>MI | ZIP<br>48502 |
| Accountant Signature | | | |

# Financial Statements

# Mott Community College
# Flint, Michigan

# June 30, 2005 and 2004

## Table of Contents

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*Independent Auditors' Report*

The Board of Trustees
Mott Community College
Flint, Michigan

We have audited the accompanying basic financial statements of Mott Community College as of and for the year ended June 30, 2005 as listed in the table of contents. These basic financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these basic financial statements based on our audit. The prior year information has been derived from the College's 2004 financial statements. Those statements were audited by other auditors, whose report dated September 9, 2004, expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of Mott Community College at June 30, 2005, and the results of its operations for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards of the United States,* we have also issued our report dated September 21, 2005 on our consideration of Mott Community College's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis presented on pages 3-17 is not a required part of the basic financial statements, but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted primarily of inquiries of management regarding the methods of measurement and presentation of the supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The additional information section noted in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Plante & Moran, PLLC

Certified Public Accountants
Flint Office

September 21, 2005

This discussion and analysis section of Mott Community College's ("the College's") annual financial report provides an overview of the College's financial performance for the year ended June 30, 2005. This section has been prepared by management, along with the financial statements and the related footnote disclosures, and should be read in conjunction with and is qualified in its entirety by the financial statements and footnote disclosures. Responsibility for the completeness and fairness of this information rests with the College's management.

## Using this Report

This annual financial report includes the report of independent auditors, this Management's Discussion and Analysis section, the basic financial statements in the format described above, and notes to financial statements. Following the basic financial statements and footnotes are additional supplementary schedules and information. This supplementary section is not required by GASB, but is provided to give additional information regarding the various funds and activities of the College that are not disclosed in the basic financial statements.

### Component Unit

In May 2002, GASB released Statement No. 39, Determining Whether Certain Organizations are Component Units. Statement No. 39 requires that separate legal entities associated with a primary government that meet certain criteria are included with the financial statements of the Primary Reporting Unit.

In compliance with this Statement, the Foundation for Mott Community College is reported as a component unit of the College and its financial activities are presented separately from the rest of the College's activities in the financial statements, in separate columns headed "Component Unit."

### Financial Reporting Model

One of the most important questions asked about the College's finances is whether the College as a whole is better off or worse off as a result of the year's activities. The Balance Sheet and the Statement of Revenues, Expenses, and Changes in Net Assets report information on the College as a whole and on its activities in a way that helps answer this question.

The Balance Sheet includes all assets and liabilities of all funds of the College, with those of The Foundation for Mott Community College shown under "Component Unit" columns. The Balance Sheet is prepared under the accrual basis of accounting, whereby revenues and assets are recognized when a service is provided, and expenses and liabilities are recognized when others provide the service, regardless of when cash is exchanged.

The Statement of Revenue, Expenses and Changes in Net Assets presents the revenue earned and the expenses incurred during the year. It includes all funds of the College, excluding activities of Agency Funds.

Activities are reported as either operating or non-operating. The financial reporting model classifies state appropriations, property taxes and gifts as non-operating revenues. Community colleges' dependency on state aid, property taxes and gifts results in an operating deficit.

The utilization of long-lived assets, referred to as capital assets, is reflected in the financial statements as depreciation, which amortizes the cost of an asset over its expected useful life.

These two statements report the College's net assets and changes in them. Net assets are the difference between assets and liabilities, and are one way to measure the College's financial position. The relationship between revenues and expenses may be thought of as Mott Community College's operating results. Over time, increases or decreases in the College's net assets are one indicator of whether its financial health is improving or deteriorating.

Many other non-financial indicators, such as enrollment and retention trends, condition of the facilities, and quality of teaching and learning, must also be considered in assessing the overall health of the College.

## Financial Highlights

The College's financial position improved during the fiscal year 2004-05, with total assets increasing from $164.4 million to $165.8 million. Strengthening the balance sheet even more, liabilities decreased from $80.0 million to $76.2 million, mainly due to the extinguishment of bond debt through annual bond principal payments.

Net assets, which represent the remaining value of the College's assets after liabilities are deducted, increased from $84.4 million to $89.6 million, a 6.2% improvement.

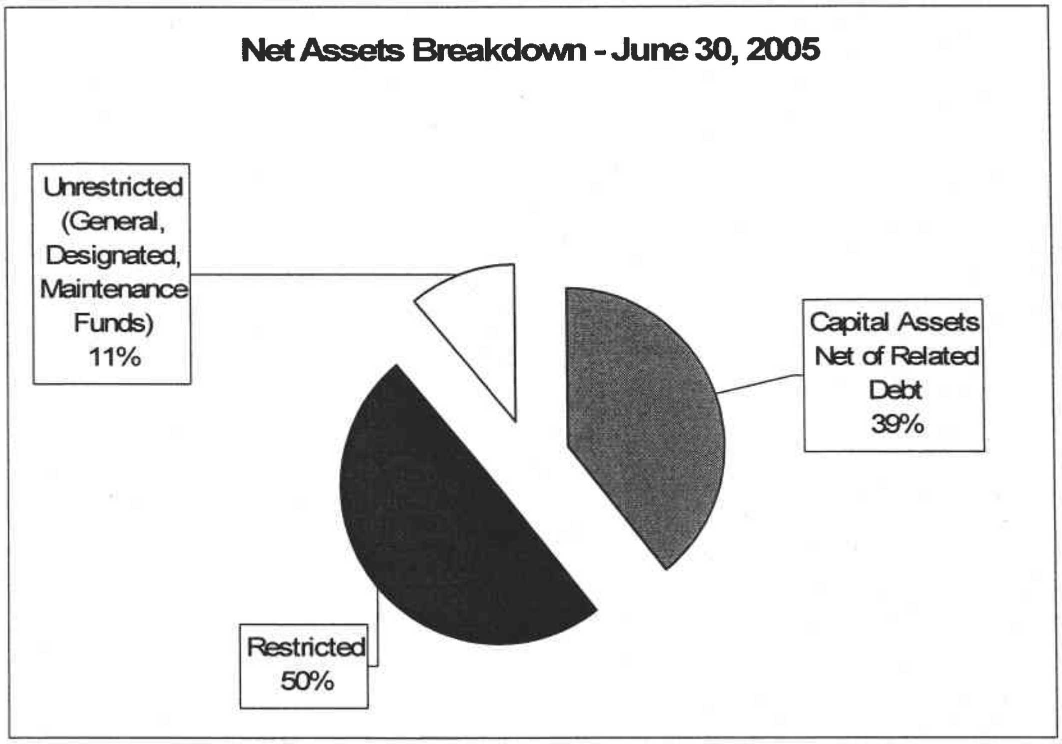
Unrestricted net assets increased from $8.9 million at June 30, 2004 to $10.0 million at June 30, 2005, a $1.1 million improvement. This improvement consisted of increases within the plant funds, the General Fund and the Designated Fund. Within the plant funds there was a $0.4 million increase in the Capital Maintenance and Replacement Fund to replenish the capital emergency fund reserve and to provide carryover funding for the completion of 2004-05 projects and planned fiscal year 2005-06 projects. A $0.4 million increase in the General Fund was attributed mainly to end-of-year property tax receipts that exceeded budgeted amounts. The remaining $0.3 million increase was in the Designated Fund and represented student instructional technology fee revenues received toward the end of the fiscal year. The funds are designated by the College's Board for instructional technology purposes only, and will be spent during the 2005-06 fiscal year.

Net assets that are of a non-cash type (Invested in capital assets, net of related debt) increased the most significantly during the fiscal year, due to the additions of building improvements, equipment, furnishings, technology and infrastructure and the scheduled pay down of debt related to the financing of these capital projects, partially offset by annual depreciation expense.

Net Assets Restricted – Nonexpendable represents the investments held in endowment funds, which increased by 5.8% in market value during fiscal year 2004-05, from $33.7 million to $35.7 million. Net Assets Restricted – Expendable balances decreased by $10.2 million in total, reflecting bond payments made from the Debt Service Fund, and use of June 30, 2004 bond sale proceeds held in the Capital Projects fund to purchase the capital assets mentioned in the previous paragraph.

In the fiscal year ended June 30, 2005, the College's revenues and other support exceeded expenses, creating an increase in total net assets of $5.2 million (compared to a $4.1 million increase during the previous year).

The following chart provides a graphical categorization of net assets for the fiscal year ended June 30, 2005:



## Balance Sheet

The Balance Sheet distinguishes between current and long-term assets and liabilities, and the format (as opposed to the net assets format) presents the accounting formula as "total assets equal liabilities plus net assets." Its purpose is to provide the College's overall financial position at the fiscal year close.

The following is a condensed version of the Balance Sheet, with analysis of the major components of the net assets of the College as of June 30, 2005 compared to June 30, 2004. This illustration includes the primary government operations of the College, and does not include its component unit, the Foundation for MCC:

Mott Community College
CONDENSED BALANCE SHEET
As of June 30, 2005 and 2004
(in millions)

| | 2005 | 2004 | Increase (Decrease) | Percent Change |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Current Assets | $ 32.7 | $ 39.4 | $ (6.7) | -17.0% |
| Noncurrent Assets | $ 133.1 | $ 125.0 | $ 8.1 | 6.5% |
| Total Assets | $ 165.8 | $ 164.4 | $ 1.4 | 0.9% |
| **LIABILITIES** | | | | |
| Current Liabilities | $ 13.5 | $ 13.0 | $ 0.5 | 3.8% |
| Noncurrent Liabilities | $ 62.7 | $ 67.0 | $ (4.3) | -6.4% |
| Total Liabilities | $ 76.2 | $ 80.0 | $ (3.8) | -4.8% |
| **NET ASSETS** | | | | |
| Invested in Capital Assets, net of related debt | $ 35.3 | $ 22.9 | $ 12.4 | 54.1% |
| Restricted - Nonexpendable | $ 35.7 | $ 33.7 | $ 2.0 | 5.9% |
| Restricted - Expendable | $ 8.6 | $ 18.9 | $ (10.3) | -54.5% |
| Unrestricted | $ 10.0 | $ 8.9 | $ 1.1 | 12.4% |
| Total Net Assets | $ 89.6 | $ 84.4 | $ 5.2 | 6.2% |
| Total Liabilities and Net Assets | $ 165.8 | $ 164.4 | $ 1.4 | 0.9% |

The largest changes in the Balance Sheet related to the use of June 30, 2004 bond proceeds on hand to purchase capital assets during the fiscal year. These purchases contributed to the significant decrease in the Restricted – Expendable Net Assets balance, and the large increase in the Invested in Capital Assets, net of related debt balance. Payments on outstanding bond debt and a January 2005 refunding of prior outstanding bonds also contributed to the strengthening of the balance sheet by lowering Total Liabilities by almost 5%. The year ended on June 30, 2005 with a $5.2 million increase in Total Net Assets.

**Assets**

*Current Assets.* Current assets are cash and other resources that are reasonably expected to be realized in cash, or sold or consumed during the College's next fiscal year. This classification includes cash, short-term investments, accounts receivable, inventories and prepaid expenses.

The College's current assets at June 30, 2005 are $32.7 million.

The decrease in current assets from 2004 to 2005 represented the use of Series 2004 bond proceeds, that had been received and invested in short-term instruments on June 30, 2004, to make purchases in the plant fund. Decreases in current assets were seen in accounts receivable balances, both in state appropriations receivable and in other accounts receivable, but the decrease was partially offset by an increase in federal and state grants receivable. There were increases in balances during the year for inventories, prepaid expenses and deferred charges, which related to the January 2005 bond refunding. Further analysis of the cash and investment activities and positions of the College are given in the Statement of Cash Flows and in the Notes to the Financial Statements.

*Noncurrent Assets.* This classification includes long-term investments, the unamortized portion of bond discounts, and property and equipment net of accumulated depreciation.

Noncurrent assets of the College total $133.1 million at June 30, 2005, with the largest portion of this balance in property and equipment (capital assets), net of accumulated depreciation. Capital assets are recorded at historical cost and not adjusted up to market value.

At June 30, 2005, the College's capital assets at cost totaled $158.4 million, and are shown on the Balance Sheet, net of $61.0 million in accumulated depreciation, as property and equipment at $97.4 million.

**Liabilities**

*Current Liabilities.* The term current liabilities designates obligations for which liquidation is reasonably expected to require the use of current assets, or the creation of other current liabilities. Current liabilities are expected to be liquidated within the College's next fiscal year.

This classification includes the current portion of the College's bond debt obligations, accounts payable and accrued payroll expenses, deposits held for outside agencies and unearned revenue. The College's unearned revenue relates to early student registration for the summer and fall semesters of 2005, which are in fiscal year 2006.

Total current liabilities at June 30, 2005 are $13.5 million, up slightly from the $13.0 million balance at June 30, 2004. The increase is mainly attributed to an increase in accounts payable, simply due to a timing difference in check runs as related to the last day of the month from year to year. Smaller increases in deposits held for others and unearned revenue were partially offset by decreases in accrued payroll and related liabilities, accrued interest payable and current portion of debt obligations, which decreased as a result of the January 2005 bond refunding.

*Noncurrent Liabilities.* The long-term portion of debt outstanding on bonds issued, as well as accrued termination pay, are included in this classification because of the reasonable expectation that they will not be liquidated within the College's next fiscal year.

Total noncurrent or long-term liabilities equal $62.7 million at June 30, 2005, and were decreased during the fiscal year, mostly due to the January 2005 bond refunding and scheduled payment of principal on outstanding bond debt. Refer to Notes to the Financial Statements in this report for more details on the College's outstanding bond debts.

## Net Assets

Net assets represent the difference between the College's assets and liabilities. The net assets at June 30, 2005 are $89.6 million.

Net assets consist of three main components: Invested in capital assets, net of related debt; Restricted (with further purpose for restrictions); and Unrestricted (with further purpose for designations and reserves).

*Invested in capital assets, net of related debt.* This component represents the balance of capital assets cost, reduced by accumulated depreciation, and further reduced by outstanding balances of bond debt that was attributed to the acquisition and improvement of the assets. For the College, this balance at June 30, 2005 is $35.3 million, calculated as $158.4 million in capital assets, less $61.0 million in accumulated depreciation, less $62.1 million in outstanding bond debt.

*Restricted net assets.* When constraints are placed on net asset use, whether imposed by external sources such as legislation, debt covenants, grantors or government regulations, or by internal restriction, the assets are reported as restricted.

Nonexpendable restricted net assets of the College include permanent endowments that are required to be retained in perpetuity. This is the largest portion of the College's restricted net assets at June 30, 2005, at $35.7 million. This balance, shown at market value, increased by $2.0 million or 5.8% from $33.7 million in the prior year.

Expendable restricted net assets include gifts and grants with specific guidelines for spending, balances of capital projects and maintenance and replacement funds to be used for capital asset acquisition and improvement, and property taxes collected from the debt levy and as such restricted for bond payments.

Unrestricted net assets represent those balances from operational activities that have not been restricted. This classification includes general fund balances as well as Board or administration designated funds.

The following table gives a comparative breakdown by category of the College's Net Assets at June 30, 2005 and June 30, 2004:

| Net Assets by Category | 2005 (In Millions) | 2004 (In Millions) |
|---|---|---|
| Capital Assets Net of Related Debt | $ 35.3 | $ 22.9 |
| Restricted-Nonexpendable Endowments | $ 35.7 | $ 33.7 |
| Restricted-Loans,Scholarships,Awards | $ 0.1 | $ 0.1 |
| Restricted-Capital Projects | $ 6.1 | $ 15.2 |
| Restricted-Debt Service | $ 2.5 | $ 3.6 |
| Unrestricted (General,Designated, Maintenance Funds) | $ 10.0 | $ 8.9 |
| | $ 89.6 | $ 84.4 |

The growth in Total Net Assets from 2004 to 2005, from $84.4 million to $89.6 million, was primarily due to the growth in endowment value, rapid payment schedule to extinguish long-term debt, and a surplus of revenues over expenditures in unrestricted or operating funds.

The operating surplus was created by end-of-year realization of additional revenues totaling approximately $0.4 million. These one-time rather than ongoing increases in revenues represented property tax receipts relating to prior year delinquencies and closer to 100% collections of personal property than budgeted. It is expected that some of this operating surplus may be released as a revenue source to provide for one-time expenditures within the 2005-06 operating budget.

**Statement of Revenues, Expenses and Changes in Net Assets**

The Statement of Revenues, Expenses and Changes in Net Assets provides the overall results of the College's operations. Revenues and expenses are recorded and recognized when incurred or earned, similar to how most corporate businesses account for transactions, and are grouped into operating and non-operating classifications. When revenues and other support exceed expenses, the result is an increase in net assets—one indication that the College as a whole is better off financially as a result of the year's activities.

The following is a condensed version of the Statement of Revenues, Expenses and Changes in Net Assets, with analysis of the major components as of June 30, 2005 compared to June 30, 2004. This illustration includes the primary government operations of the College, and does not include its component unit, the Foundation for MCC:

Mott Community College
CONDENSED STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN NET ASSETS
For Years Ended June 30, 2005 and 2004
(in millions)

| | 2005 | 2004 | Increase (Decrease) | Percent Change |
|---|---|---|---|---|
| Total Operating Revenues | $ 36.1 | $ 35.0 | $ 1.1 | 3.1% |
| Total Operating Expenses | $ 76.1 | $ 74.1 | $ 2.0 | 2.7% |
| Total Operating Loss | $ (40.0) | $ (39.1) | $ (0.9) | -2.3% |
| Nonoperating Revenues, Net | $ 44.8 | $ 42.6 | $ 2.2 | 5.2% |
| Income before other revenues and expenses | $ 4.8 | $ 3.5 | $ 1.3 | -37.1% |
| Other Revenues, Net | $ 0.4 | $ 0.6 | $ (0.2) | -33.3% |
| Total Increase in Net Assets | $ 5.2 | $ 4.1 | $ 1.1 | -26.8% |
| Net Assets, Beginning of Year | $ 84.4 | $ 80.3 | $ 4.1 | 5.1% |
| Net Assets, End of Year | $ 89.6 | $ 84.4 | $ 5.2 | 6.2% |

## Operating Revenues

This category includes all exchange transactions such as tuition and fees, grants and contracts for services except those for capital purposes, auxiliary enterprise activities (bookstore, food service, day care), and other miscellaneous sales and rental income.

Total operating revenues increased $1.1 million, or 3.1%, from 2004 to 2005, as a result of the following:

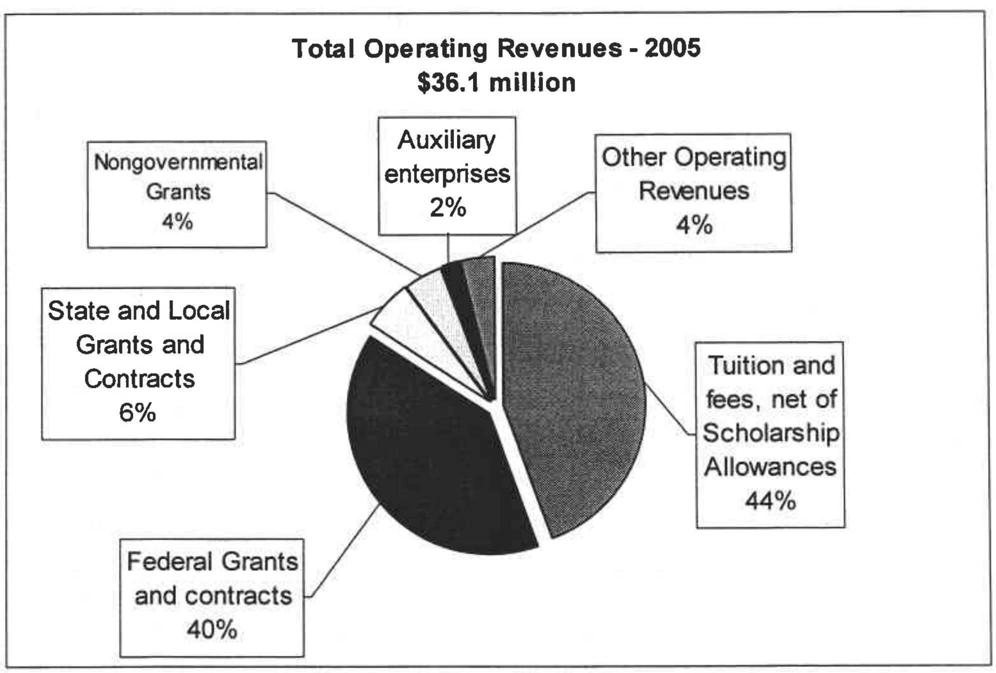
- Tuition and fee revenue increased by approximately $0.3 million to $22.8 million. This 1.4% overall increase was due to a 2.3% tuition and fee rate increase, effective with the fall 2004 semester, with level enrollment in credit courses from 2004 to 2005. This credit-side revenue increase was partially offset by a decline in noncredit training revenues.

  When the portion of this revenue covered by student financial aid is subtracted, however (as presented on the statement as "less scholarship allowances"), net tuition and fee revenue actually declined from 2003-04 to 2004-05, by 0.6%. This is an indication that student financial aid increased sufficiently to cover virtually all additional student tuition and fee costs caused by the rate increases.

- Grants and contracts revenues totaled $17.9 million, representing a net increase of $0.9 million from the prior year. This increase was seen primarily in federal grants, the largest of which is the federal Pell grant student award, increasing from $8.9 million to $10.2 million from 2004 to 2005. State, local and nongovernmental grants declined from 2004 to 2005, due mainly to a major grant from a private foundation ending during fiscal year 2005.

- Auxiliary enterprises revenue stayed level from 2003-04 to 2004-05, at approximately $0.7 million, and miscellaneous revenues increased by approximately $0.2 million.

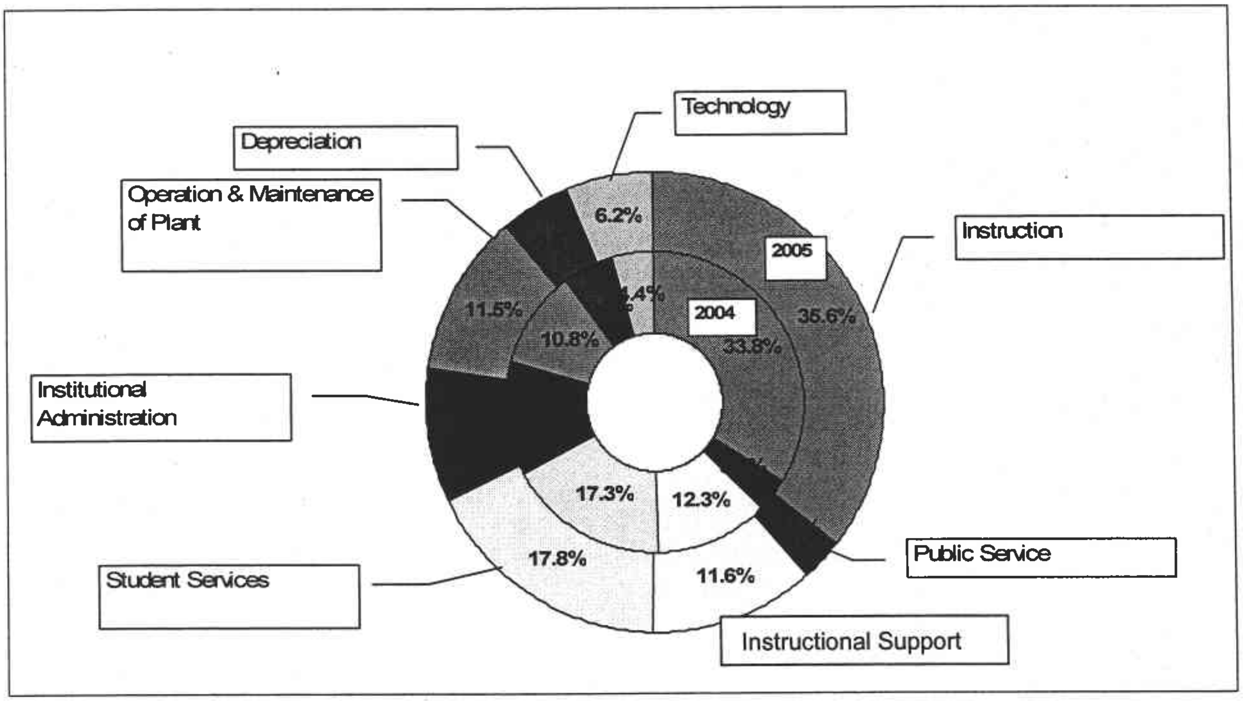
The following is a graphic illustration of operating revenues by source:



### *Operating Expenses*

Operating expenses represent all the costs necessary to provide services and conduct the programs of the College. Operating expenses for the fiscal year ended June 30, 2005 total $76.1 million, and consist of salaries and benefits, scholarships, utilities, contracted services, supplies and materials, and depreciation. These items are presented in a functional format in the Statement of Revenues, Expenses, and Changes in Net Assets, consistent with the State of Michigan's reporting format, currently the Activities Classification Structure (ACS) Manual.

The following chart shows the comparative allocation of operating expenses by function for years ended June 30, 2004 and 2005:




The college continues to spend the largest percentage of operating budget on instruction, with student services and instructional support making up the second and third largest proportion of operating expenses. These expenses include operating, plant and restricted fund activities. Depreciation was recorded for the first time during fiscal year 2002-03, as a new GASB reporting requirement for community colleges.

The differences in the proportions spent on Instructional Support and on Institutional Administration both represent capital projects for which there was spending during 2004 but not 2005, and vice versa.

In the General Fund, operating expenses for 2004-05 were $56.2 million, an increase of $2.0 million or 3.6% compared to $54.2 million in operating expenses for 2003-04. Most of the increase represents contractual and rate increases in salary and fringe benefit costs.

### Non-operating Revenues (Expenses)

Nonoperating revenues represent all revenue sources that are primarily non-exchange in nature. They consist of state appropriations, property tax revenue, gifts and other support, and investment income (including realized and unrealized gains and losses).

Nonoperating expenses are also listed in the same category with nonoperating revenues. This item includes the interest paid for fiscal year 2004-05 on the College's outstanding bond debts.

Total non-operating revenues net of expenses increased by $2.2 million, resulting primarily from the following changes:

- State appropriations increased by $0.7 million or 5.0%, including a one-time restoration of prior year cuts issued by the state of Michigan, in exchange for the college's commitment to keep 2004-05 tuition rate increases at or below inflationary levels. The state continues to experience budget constraints due to lack of economic recovery at the level expected. The state appropriations revenue for 2005 is $14,894,743.

- Property tax revenues are $28.3 million, representing an increase of $711 thousand or 5.0% from the prior year. Higher revenues from increased property values were offset by decreases in both the debt and operating portions of MCC's levied millage rate.

- Investment income, including realized and unrealized gains and losses, increased from $3,364,109 to $3,661,145, an 8.8% improvement from 2003-04 to 2004-05, primarily in the Endowment Funds, due to improved market conditions.

**Other Revenues**

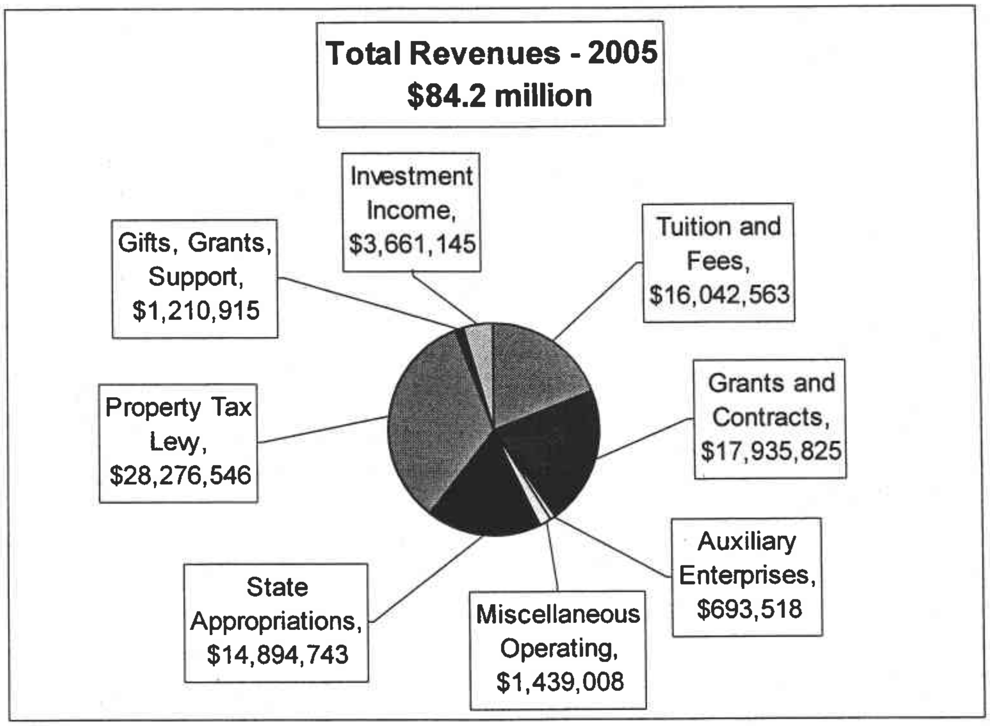
Other revenues consist of items that are typically nonrecurring, extraordinary, or unusual to the College. Other revenues recorded in the year ended June 30, 2005 included the following:

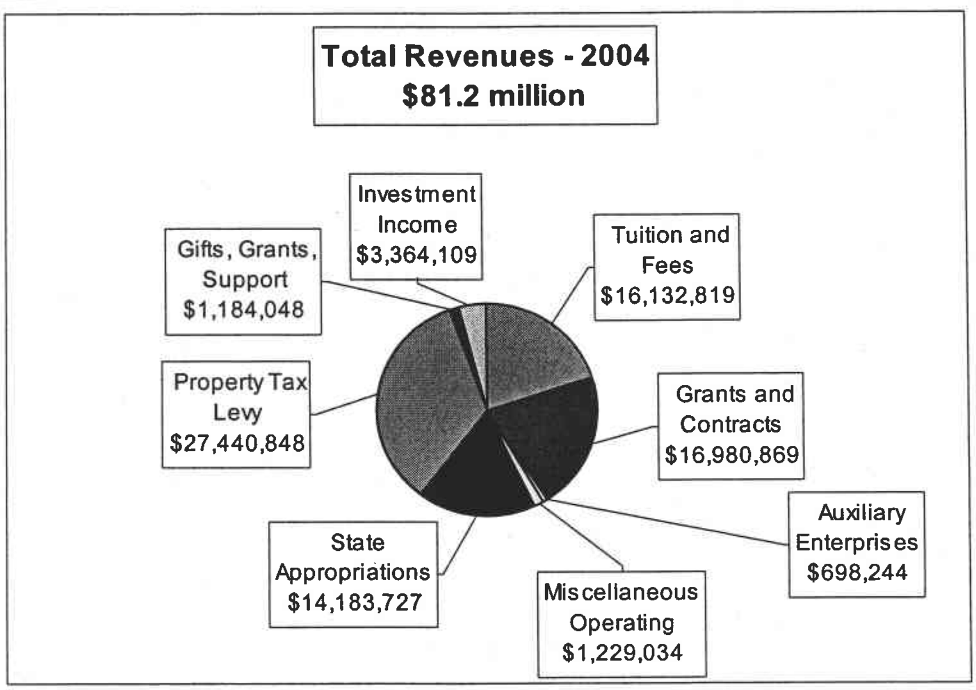
- State capital appropriation of $406 thousand. This is the remainder of a $34 million project to construct the College's Regional Technology Center (RTC), which was funded 50% by bond proceeds obtained by the College, and 50% by the State of Michigan. Construction was substantially completed during 2003-04, and the project was closed out during 2004-05.

- Capital gift of $58,421 received from local sources as cost offset for start-up expenses under an Educational Interconnectivity Consortium in which Mott Community College is partnering with other local educational institutions to improve efficiency within computer network infrastructure and operating costs.

***All Revenues – Combined Picture***

The following is a graphic illustration of the College's total revenues in all classifications--operating revenues, nonoperating revenues and other revenues--for the years ended June 30, 2005 and June 30, 2004:



For fiscal year 2005, property taxes, including operating and debt levies, accounted for 34% of total revenues, the same proportion as in 2004, and are the largest single source of revenue for the College. Next are tuition and fees, shown for 2005 at $16.0 million but equaling $22.8 million and 27% of total revenues when combined with the portion of student financial aid (included in the grants and contracts category) that is used to pay tuition and fees.

State appropriations remain a distant third in rank of the revenue sources, comprising 17% of the total for fiscal year 2005. Grants and contracts are fourth at 13% or $11.1 million, when the portion covering tuition and fees is subtracted from the $17 million shown in the chart.

## Statement of Cash Flows

In addition to the Balance Sheet and the Statement of Revenues, Expenses and Changes in Net Assets, another way to assess the financial health of the College is to look at the Statement of Cash Flows. Its primary purpose is to provide relevant information about the cash receipts and cash payments of the College during the fiscal year. The Statement of Cash Flows also helps to assess:

- The ability to generate future net cash flows
- The ability to meet obligations as they come due
- The need for external financing

The following is a condensed Statement of Cash Flows, summarizing cash receipts and cash payments by type of activity:

Mott Community College
CONDENSED STATEMENT OF CASH FLOWS - DIRECT METHOD
For the Year Ended June 30, 2005
(in millions)

| | 2005 | 2004 |
|---|---|---|
| Cash and cash equivalents provided (used) by: | | |
| Operating activities | $ (34.7) | $ (34.4) |
| Noncapital financing activities | 36.7 | 34.8 |
| Capital and related financing activities | 11.9 | 10.6 |
| Investing activities | (12.3) | (12.9) |
| Net increase (decrease) in cash | 1.6 | (1.9) |
| Cash and cash equivalents, beginning of year | 2.9 | 4.8 |
| Cash and cash equivalents, end of year | $ 4.5 | $ 2.9 |

The -$34.7 net cash used for operating activities included -$72.4 million in payments to employees and suppliers, and +$37.7 million in cash received for tuition and fees, grants and contracts, and auxiliary enterprise activities. This negative operating cash flow was covered by state appropriations, property taxes, gifts and other support, all of which are included in the +$36.7 million in cash from noncapital financing activities.

The net increase of +$11.9 million for capital and related financing activities is mostly due to bond proceeds, receipts from the debt millage property tax levy and capital outlay dollars from the state, offset by purchases of capital assets and cash used to make principal and interest on outstanding bond debt.

Investing activities include interest received, as well as purchases, sales and maturities of investments.

The overall result of cash flows is an increase in cash of $1.6 million during FY 2004-05.

## Economic Factors and Outlook

### Capital Assets

The College had $97.0 million invested in capital assets at June 30, 2005, net of accumulated depreciation of $61 million. The following table shows the breakdown of Property and Equipment balances by category at June 30, 2005:

| (in millions) | Cost | Less: Accumulated Depreciation | Net |
|---|---|---|---|
| Land | $ 0.84 | $ - | $ 0.84 |
| Artwork | $ 0.01 | $ - | $ 0.01 |
| Construction in Progress | $ 7.12 | $ - | $ 7.12 |
| Buildings and Improvements | $ 128.81 | $ 46.20 | $ 82.61 |
| Equipment and Library Books | $ 21.64 | $ 14.80 | $ 6.84 |
| | $ 158.42 | $ 61.00 | $ 97.42 |

Major capital additions completed this year and the source of the resources that funded their acquisition included (in millions):

- Gorman Science Center Renovations (in Progress at June 30, 2005) from Series 2004 bond proceeds — $1.3 million
- Energy Conservation Project (in Progress at June 30, 2005) from Series 2004 bond proceeds: — $5.8 million
- Improvements to various other buildings, infrastructure and parking Structures on the main campus, from Series 2004 bond proceeds and designated reserves: — $1.6 million
- Computer and audio-visual equipment, from Series 2004 bond proceeds and designated reserves: — $0.9 million
- Various equipment, vehicles and furnishings, from Series 2004 bond proceeds and designated reserves: — $0.5 million

The College has planned capital expenditures for the fiscal year ending June 30, 2006 at approximately $17.5 million. Projects planned include completion of the Energy Performance Contract and renovation of the Gorman Science Center, including the consolidation and relocation of math and science programs within it, and improvements in the Ballenger Field House. These projects will be funded with remaining Series 2004 Bond proceeds and existing capital funds on hand.

Additional capital projects planned include life cycle replacement of computers and technology, purchase of instructional equipment, and various other building and infrastructure improvements, all of which are expected to be funded with designated funds and capital funds existing and planned to be transferred from operating funds.

More information about the College's capital assets is presented in the Notes to the Financial Statements.

## Debt

On June 14, 2004, the College held a special election for the purpose of submitting a proposition to the electors that Mott Community College be allowed to borrow $45,000,000 in the issuance of bonds for capital expenditures. The election was successful and this bond authority was granted. The college issued $15,000,000 in bonds on June 30, 2004, and plans to issue three additional series of bonds of $10 - $15 million each issuance over the next several years. The next planned issuance is a Series 2006 Bond sale expected to provide up to $15,000,000 within current voted bond authority, in the spring of 2006.

At June 30, 2005, the College had approximately $62.2 million in debt outstanding, versus $68.1 million the previous year. General obligation bonds payable represent the majority of this debt at $62.1 million in 2005, increased from $61.1 million in 2004. The remaining portion of the 2005 balance represents the obligation of $31,037 for the installment purchase of an athletics department passenger bus.

One series of bonds was issued during fiscal year 2004-05:

Series 2005 General Obligation Refunding Bonds were issued on January 24, 2005 in the amount of $22,620,000. The bonds were used, along with $1,543,000 of funds on hand, to advance refund at a lower average interest rate of 4.10% a portion of two outstanding bond series.

Payments on existing bond debts totaled $5.9 million for the year.

The College has bond credit ratings of 'A2' and 'A+' from Moody's and Standard & Poor's, respectively, for the series of bonds issued during 2004-05. Standard & Poor's did upgrade their rating from 'A' to 'A+' outlook to positive from stable. According to Standard & Poor's, the upgrade reflects continued improvements in the college's general fund balance that have stabilized its financial position. The 'A+' rating also reflects the following credit characteristics: 1) a large, diverse, and steadily growing tax base; 2) adequate financial reserves; and 3) a low debt burden. Their rationale included evidence of planned balanced financial operations in the near future in addition to the college's already proven track record of maintaining improved, stable reserve levels.

More detailed information about the College's long-term liabilities is presented in the Notes to the Financial Statements.

## Economic Factors That Will Affect the Future

The economic position of the College is closely tied to that of the State. Historically when the state economy is in a downturn, community colleges' enrollment increases and there are demands on community colleges for increased and more diverse training and education opportunities to meet needs of employers and individuals needing upgraded skills. By the same token, when the state experiences lack of economic growth, decreased levels of appropriations to community colleges continue to result.

The current state budget projects continued funding cuts in appropriations to Mott Community College for 2005-06. This continued decline follows a 5.8% increase for the 2004-05 year (including a one-time restoration of prior year cuts), a –10.5 % decrease in funding for the 2003-04 fiscal year, and a –3.2% cut in 2002-03. State appropriations to community colleges have not kept up with rates of inflation since 2000. Appropriations for the 2005-06 fiscal year are budgeted at $14.3 million to reflect currently pending legislation.

The Board of Trustees approved an increase of 7.4% for tuition and fee rates effective with the fall 2005 semester for the 2005-06 academic year. This increase reflects a higher than inflationary level, a move necessary to offset continued declines in state support. No mid-year tuition and fee increase is currently planned during 2005-06.

Mott Community College must continue to address challenges of rising operating costs, especially within employee compensation, as this area represents approximately 77% of the total operating budget. Future expectations of sharp increases in retirement contribution rates and health insurance rates are among specific areas of focus in order to control the operating expenditure base over the long-term.

Mott Community College has been accredited by the Higher Learning Commission (HLC) of North Central Association of Colleges and Schools (NCA) for almost 80 years. While MCC is accredited until 2009-10, the Board of Trustees chose in May 2005 to utilize a new approach to accreditation, a continuous improvement model called Academic Quality Improvement Program (AQIP). AQIP is the new, ongoing process of self-evaluation and analysis that is focused on institutional systems, Action Projects, and continual assessment of institutional quality, and it is designed specifically to allow MCC to customize the process to our own needs and those of our community and stakeholders. In order to become an AQIP college, MCC must begin the self-assessment immediately and apply in 2006.

The College has in place a 2001-2006 five-year strategic plan for which key initiatives are developed and updated annually, and linked directly to budget allocations. Steps to launch the next five-year strategic planning effort will take place during the 2005-06 year, incorporating AQIP principles and processes. These strategic planning actions are driving long-term financial and capital budget plans, and such efforts will enable it to maintain quality delivery of education and training that continues to meet community needs.

**Mott Community College**
**Balance Sheet**
**June 30, 2005 and 2004**

| | Primary Government | | Component Unit Foundation for Mott Community College | |
|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 |
| **Assets** | | | | |
| Current assets | | | | |
| Cash and cash equivalents | $ 4,454,256 | $ 2,941,244 | $ 59,169 | $ 90,011 |
| Short term investments | 18,819,014 | 29,482,324 | - | - |
| State appropriation receivable | 2,514,682 | 2,520,186 | - | - |
| Accounts receivable | 3,696,566 | 4,860,479 | 198,128 | 106,609 |
| Less allowance for uncollectible accounts | (1,671,972) | (2,398,124) | - | - |
| Federal and state grants receivable | 2,190,802 | 1,405,583 | - | - |
| Inventories | 57,551 | 30,281 | - | - |
| Prepaid expenses and other assets | 688,641 | 511,536 | | |
| Deferred charges | 1,980,008 | - | 12,400 | 10,209 |
| Total current assets | 32,729,548 | 39,353,509 | 269,697 | 206,829 |
| Long term investments | 35,277,727 | 33,663,321 | 2,830,462 | 2,606,094 |
| Bond discount | 351,060 | 370,088 | - | - |
| Property and equipment - net of accumulated depreciation ( $60,994,076 for 2005 and $57,670,955 for 2004 ) | 97,426,570 | 91,004,193 | - | - |
| Total assets | $ 165,784,905 | $ 164,391,111 | $ 3,100,159 | $ 2,812,923 |

*See notes to financial statements.*

| | Primary Government 2005 | Primary Government 2004 | Component Unit Foundation for Mott Community College 2005 | Component Unit Foundation for Mott Community College 2004 |
|---|---|---|---|---|
| **Liabilities and Net Assets** | | | | |
| Current liabilities: | | | | |
| Current portion of debt obligations | $ 4,885,105 | $ 5,119,320 | $ - | $ - |
| Accounts payable | 1,956,364 | 1,338,398 | 8,916 | - |
| Accrued interest payable | 360,310 | 551,543 | - | - |
| Accrued payroll and related liabilities | 3,346,677 | 3,353,648 | - | - |
| Deposits held for others | 578,022 | 541,637 | - | - |
| Unearned revenue | 2,338,594 | 2,139,428 | - | - |
| Total current liabilities | 13,465,072 | 13,043,974 | 8,916 | - |
| Long term debt obligations | 57,275,932 | 62,991,037 | - | - |
| Accrued termination pay | 3,835,727 | 3,960,574 | | |
| Bond premium | 1,579,283 | - | - | - |
| Total liabilities | 76,156,014 | 79,995,585 | 8,916 | - |
| Net assets: | | | | |
| Invested in capital assets, net of related debt | 35,251,213 | 22,893,836 | - | - |
| Restricted for | | | | |
| Nonexpendable | 35,701,327 | 33,731,420 | 578,515 | 530,699 |
| Expendable | | | | |
| Student loans | 66,799 | 66,408 | - | - |
| Scholarships and awards | 4,589 | 13,342 | 2,186,500 | 1,996,074 |
| Capital projects | 6,100,246 | 15,243,130 | - | - |
| Debt service | 2,480,651 | 3,553,056 | - | - |
| Unrestricted | 10,024,066 | 8,894,334 | 326,228 | 286,150 |
| Total net assets | 89,628,891 | 84,395,526 | 3,091,243 | 2,812,923 |
| Total liabilities and net assets | $ 165,784,905 | $ 164,391,111 | $ 3,100,159 | $ 2,812,923 |

**Mott Community College**
**Statement of Revenues, Expenses and Changes in Net Assets**
**Year Ended June 30, 2005 and 2004**

| | Primary Government | | Component Unit Foundation for Mott Community College | |
|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 |
| **Revenues:** | | | | |
| Operating revenues | | | | |
| Tuition and fees | $ 22,809,215 | $ 22,486,000 | $ - | $ - |
| Less scholarship allowances | (6,766,652) | (6,353,181) | - | - |
| Federal grants and contracts | 14,337,427 | 12,511,337 | - | - |
| State and local grants and contracts | 2,083,301 | 2,318,133 | - | - |
| Nongovernmental grants | 1,515,097 | 2,151,399 | - | - |
| Auxiliary enterprises | 693,518 | 698,244 | - | - |
| Gifts | - | - | 547,648 | 446,788 |
| Miscellaneous | 1,439,008 | 1,229,034 | - | - |
| Total operating revenues | 36,110,914 | 35,040,966 | 547,648 | 446,788 |
| **Expenses:** | | | | |
| Operating expenses | | | | |
| Instruction | 27,057,425 | 25,046,454 | - | - |
| Public service | 2,377,924 | 2,760,833 | - | - |
| Instructional support | 8,800,419 | 9,117,997 | 78,539 | 145,793 |
| Student services | 13,509,593 | 12,844,782 | 251,509 | 239,261 |
| Institutional administration | 7,183,033 | 9,043,236 | - | - |
| Operation and maintenance of plant | 8,783,418 | 7,997,154 | - | - |
| Depreciation | 3,634,454 | 4,085,117 | - | - |
| Technology | 4,748,390 | 3,234,738 | - | - |
| Foundation operations | - | - | 165,377 | 135,842 |
| Total operating expenses | 76,094,656 | 74,130,311 | 495,425 | 520,896 |
| Operating gain (loss) | (39,983,742) | (39,089,345) | 52,223 | (74,108) |
| **Non-Operating Revenues (Expenses):** | | | | |
| State appropriations | 14,894,743 | 14,183,727 | - | - |
| Property tax levy | 28,276,546 | 27,440,848 | - | - |
| Gifts | 746,762 | 567,315 | - | - |
| Investment income | 662,420 | 240,371 | 110,511 | 76,059 |
| Net realized and unrealized gain on investment | 2,998,725 | 3,123,738 | 115,586 | 268,881 |
| Interest on capital asset - related debt | (2,475,726) | (2,826,689) | - | - |
| Loss on disposal of assets | (48,312) | (10,080) | - | - |
| Bond issuance costs | (302,206) | (153,797) | - | - |
| Net non-operating revenues | 44,752,952 | 42,565,433 | 226,097 | 344,940 |
| Income before other revenues and expenses | 4,769,210 | 3,476,088 | 278,320 | 270,832 |
| **Other Revenues:** | | | | |
| State capital appropriations | 405,732 | 611,733 | - | - |
| Capital gifts and grants | 58,421 | 5,000 | - | - |
| Total other revenues | 464,153 | 616,733 | - | - |
| Increase in net assets | 5,233,363 | 4,092,821 | 278,320 | 270,832 |
| **Net Assets:** | | | | |
| Net assets - beginning of year | 84,395,528 | 80,302,705 | 2,812,923 | 2,542,091 |
| Net assets - end of year | $ 89,628,891 | $ 84,395,526 | $ 3,091,243 | $ 2,812,923 |

*See notes to financial statements.*

**Mott Community College**
**Statement of Cash Flows**
**Year Ended June 30, 2005**

| | Primary Government 2005 | Component Unit 2005 |
|---|---|---|
| **Cash Flows from Operating Activities** | | |
| Tuition and fees | $ 18,362,662 | $ - |
| Grants and contracts | 17,282,694 | - |
| Payments to suppliers | (24,384,368) | (174,293) |
| Payments to employees | (48,043,509) | - |
| Auxiliary enterprise | 693,518 | - |
| Gifts received | - | 529,092 |
| Allocations to primary government | - | (330,048) |
| Allocations from component unit | 330,048 | - |
| Other | 1,014,482 | - |
| Net cash provided by (used for) operating activities | (34,744,473) | 24,751 |
| **Cash Flows from Noncapital Financing Activities** | | |
| State appropriations | 14,900,247 | - |
| Local property taxes | 20,989,013 | - |
| Gifts and contributions for other than capital purposes | 746,762 | - |
| Student loan receipts | 6,171,605 | - |
| Student loan disbursements | (6,171,605) | - |
| Agency transactions | 19,285 | - |
| Net cash provided by noncapital financing activities | 36,655,307 | - |
| **Cash Flows from Capital and Related Financing Activities** | | |
| Purchase of capital assets | (10,105,143) | - |
| Principal paid on capital debt | (5,630,000) | - |
| Proceeds from issuance of debt | 22,620,000 | - |
| Bond issuance costs | (302,206) | - |
| Capital grant and gift proceeds | 464,153 | - |
| Capital property tax levy | 7,287,533 | - |
| Interest paid on capital debt | (2,438,757) | - |
| Net cash provided by capital and related financing activities | 11,895,580 | - |
| **Cash Flows from Investing Activities** | | |
| Proceeds from sales and maturities of investments | 19,169,783 | 117,954 |
| Interest on investments | 662,420 | 110,510 |
| Purchase of investments | (32,125,605) | (284,057) |
| Net cash used for investing activities | (12,293,402) | (55,593) |
| **Net increase (decrease) in cash** | 1,513,012 | (30,842) |
| **Cash - beginning of year** | 2,941,244 | 90,011 |
| **Cash - end of year** | $ 4,454,256 | $ 59,169 |

(continued)

**Mott Community College**
**Statement of Cash Flows (continued)**
**Year Ended June 30, 2005**

| | Primary Government 2005 | Component Unit 2005 |
|---|---|---|
| **Reconciliation of Net Operating Revenues (Expenses) to Net Cash Provided by (Used for) Operating Activities:** | | |
| Operating gain (loss) | $(39,983,742) | $ 52,223 |
| Adjustments to reconcile operating loss to net cash provided by (used for) | | |
| Depreciation | 3,634,454 | - |
| Amortization of bond discount | 19,028 | - |
| (Increase) decrease in net assets: | | |
| Federal and state grants receivable | (785,219) | - |
| Accounts receivable (net) | 1,890,064 | (18,556) |
| Inventories | (27,270) | - |
| Prepaid assets and other current assets | (177,105) | (2,191) |
| Assets held by Primary Government | - | (15,641) |
| Increase (decrease) in liabilities: | | |
| Accounts payable | 617,969 | 8,916 |
| Accrued payroll and other compensation | (131,818) | - |
| Unearned revenue | 199,166 | - |
| Net cash provided by (used for) operating activities | $(34,744,473) | $ 24,751 |

**Non cash transactions**

Bonds were issued in the amount of $22,620,000 as part of a bond refunding. The proceeds were directly deposited with an escrow agent.

*See notes to financial statements.*

**Mott Community College**
**Statement of Cash Flows**
**Year Ended June 30, 2004**

| | Primary Government 2004 | Component Unit 2004 |
|---|---|---|
| **Cash Flows from Operating Activities** | | |
| Tuition and fees | $ 16,607,066 | $ - |
| Grants and contracts | 16,796,018 | - |
| Payments to suppliers | (23,992,032) | (105,842) |
| Payments to employees | (46,170,441) | - |
| Auxiliary enterprise | 698,244 | - |
| Gifts received | - | 446,788 |
| Allocations to primary government | - | (385,054) |
| Allocations from component unit | 385,054 | - |
| Other | 1,318,518 | 531,412 |
| Net cash provided by (used for) operating activities | (34,357,573) | 487,304 |
| **Cash Flows from Noncapital Financing Activities** | | |
| State appropriations | 14,415,171 | - |
| Local property taxes | 20,004,586 | - |
| Gifts and contributions for other than capital purposes | 567,315 | - |
| Student loan receipts | 4,923,518 | - |
| Student loan disbursements | (4,923,518) | - |
| Agency transactions | (195,154) | - |
| Net cash provided by noncapital financing activities | 34,791,918 | - |
| **Cash Flows from Capital and Related Financing Activities** | | |
| Purchase of capital assets | (2,628,241) | - |
| Principal paid on capital debt | (7,255,000) | - |
| Proceeds from issuance of debt | 15,000,000 | - |
| Bond issuance costs | (153,797) | - |
| Capital grant and gift proceeds | 616,733 | - |
| Capital property tax levy | 7,498,824 | - |
| Interest paid on capital debt | (2,524,522) | - |
| Net cash provided by capital and related financing activities | 10,553,997 | - |
| **Cash Flows from Investing Activities** | | |
| Proceeds from sales and maturities of investments | 15,549,817 | 268,881 |
| Interest on investments | 212,959 | 76,059 |
| Purchase of investments | (28,699,628) | (744,599) |
| Net cash used for investing activities | (12,936,852) | (399,659) |
| **Net increase (decrease) in cash** | (1,948,510) | 87,645 |
| **Cash - beginning of year** | 4,889,754 | 2,366 |
| **Cash - end of year** | $ 2,941,244 | $ 90,011 |

(continued)

**Mott Community College**
**Statement of Cash Flows (continued)**
**Year Ended June 30, 2004**

| | Primary Government 2004 | Component Unit 2004 |
|---|---|---|
| **Reconciliation of Net Operating Revenues (Expenses) to Net Cash Provided by (Used for) Operating Activities:** | | |
| Operating gain (loss) | $(39,089,345) | $ (74,108) |
| Adjustments to reconcile operating loss to net cash provided by (used for) | | |
| Depreciation | 4,085,117 | - |
| Amortization of bond discount | - | - |
| (Increase) decrease in net assets: | | |
| Federal and state grants receivable | (231,202) | - |
| Accounts receivable (net) | 1,087,193 | 1,035 |
| Inventories | 19,746 | - |
| Prepaid assets and other current assets | 167,245 | (2,718) |
| Assets held by Primary Government | - | 563,095 |
| Increase (decrease) in liabilities: | | |
| Accounts payable | (663,867) | - |
| Accrued payroll and other compensation | 594,164 | - |
| Unearned revenue | (326,624) | - |
| Net cash provided by (used for) operating activities | $(34,357,573) | $ 487,304 |

**Non cash transactions**

Bonds were issued in the amount of $10,020,000 as part of a bond refunding. The proceeds were directly deposited with an escrow agent.

*See notes to financial statements.*

## 1. Basis of presentation and significant accounting policies

**Reporting Entity** - Mott Community College (the "College") is a Michigan community college, with its main campus located in Flint, Michigan and satellite campuses in Genesee, Lapeer, and Livingston Counties. The College is governed by a Board of Trustees, whose seven members are elected for six-year overlapping terms.

The accompanying financial statements have been prepared in accordance with the criteria established by the Governmental Accounting Standards Board (GASB) for determining the various organizations to be included in the reporting entity. These criteria include significant operational or financial relationships with the College. Because of the economic interest the College has in the Foundation, the Foundation for Mott Community College is included in the College's reporting entity as a discretely presented component unit. Separate financial statements of the Foundation can be obtained by contacting the Foundation for Mott Community College, 1401 East Court Street, Flint, Michigan 48503.

**Basis of presentation** - The financial statements have been prepared in accordance with generally accepted accounting principles (GAAP) as applicable to public colleges and universities as described in GASB Statement No. 35 and the *Manual for Uniform Financial Reporting- Michigan Public Community Colleges, 2001*. The College follows the "business-type" activities model of the GASB Statement No. 35. Business Type Activities are those that are financed in whole or in part by fees charged to external parties for goods and services. Reporting for business-type activities is based on all applicable GASB pronouncements, as well as certain applicable Financial Accounting Standards Board pronouncements, unless the latter conflicts with GASB pronouncements.

Significant accounting policies followed by the College are described below:

Accrual basis - The financial statements have been prepared on the accrual basis of accounting, whereby revenue is recognized when earned and expenses are recognized when the related liabilities are incurred and certain measurement and matching criteria are met.

Cash and cash equivalents:

Cash and cash equivalents consist of all highly liquid investments with an initial maturity of three months or less when purchased.

Gifts and pledges:

Gifts are recorded at estimated fair values when received, and pledges are recorded at their net present value when it is determined that collection of the gift is probable.

Investments:

Investments are recorded at fair value, based on quoted market prices. Investments for which there are no quoted market prices are not material.

Allowance for Doubtful Accounts:

An allowance is established, when material, for doubtful accounts.

Inventories:

Inventories, including supplies, are stated at the lower of cost (first-in, first-out) or market.

**1. Basis of presentation and significant accounting policies** – (continued)

Property and Equipment:

Property and equipment are recorded at cost or, if donated, the fair value at the time of donation. Property and equipment are depreciated over their estimated useful lives ranging from 5-50 years. Depreciation is computed using the straight line method. No depreciation is recorded on land or art. Expenditures for major renewals and betterments that extend the useful lives of the capital assets are capitalized. The College has a policy of capitalizing only property and equipment purchases of $5,000 and over. Expenditures for maintenance and repairs are charged to current expenditures as incurred.

Operating revenues:

All revenues from programmatic sources are considered to be operating revenues. Included in non-operating revenues are state appropriations, investment income and gifts.

Revenue recognition:

Revenues are recognized in the period earned. Revenue recorded prior to year end that related to the next fiscal period is recorded as unearned revenue.

State appropriations for operations are recognized ratably over the state appropriation period. The appropriation period is from October 1 – June 30.

Property taxes, net of estimated refunds and uncollectible amounts, are recognized on the accrual basis in the year for which the levy was intended.

Tuition revenue is recognized as revenue in the semester during which the tuition is earned. Any amounts received and related to the period after June 30 are deferred and reported as unearned revenue.

Estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Net assets:

Net assets are classified according to external donor restrictions or availability of assets for satisfaction of College obligations. Nonexpendable restricted net assets are gifts that have been received for endowment purposes, the corpus of which can not be expended. Expendable restricted net assets represent funds that have been gifted for specific purposes and funds held in federal loan programs.

Restricted resources:

The College applies expenses first against restricted resources when an expense is incurred for which both restricted and unrestricted net assets are available.

## 2. Cash and investments

Investment policies for cash and investments as set forth by the Board of Trustees authorize the College to invest in bonds, bills or notes of the United States or other obligations of the State; certificates of deposit insured by a state or national bank or savings and loan organized and authorized to operate in the State of Michigan; commercial paper rated prime at the time of purchase and maturing not more than 270 days after the date of purchase; and managed investment programs for the investment of school funds as approved by the Board of Trustees.

As of June 30, 2005, the College had the following investments and maturities:

| | Fair Market Value | Less Than One Year | 1-10 Years | More Than 10 Years |
|---|---|---|---|---|
| Money Markets | $ 17,666,465 | $ 17,666,465 | $ - | $ - |
| U.S. Agencies | 5,826,645 | 5,826,645 | - | - |
| Mutual bond funds | 19,943,916 | - | 10,862,148 | 9,081,768 |
| Mutual Equity Funds | 15,113,971 | - | - | 15,113,971 |
| Total investments and maturities | $ 58,550,997 | $ 23,493,110 | $ 10,862,148 | $ 24,195,739 |

As of June 30, 2004, the College had the following investments and maturities:

| | Fair Market Value | Less Than One Year | 1-10 Years | More Than 10 Years |
|---|---|---|---|---|
| Money Markets | $ 32,994,462 | $ 32,994,462 | $ - | $ - |
| U.S. Agencies | - | - | - | - |
| Mutual bond funds | 19,287,033 | - | 10,474,553 | 8,812,480 |
| Mutual Equity Funds | 13,805,394 | - | - | 13,805,394 |
| Total investments and maturities | $ 66,086,889 | $ 32,994,462 | $ 10,474,553 | $ 22,617,874 |

Interest rate risk:

The College does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit risk:

The College is authorized by Michigan Public Act 331 of 1966 and as amended through 1997 to invest surplus monies in bonds, bills, and notes of the United States or obligations of the State of Michigan, mutual funds and investment pools that are composed of authorized investments, bankers acceptances, commercial paper rated prime by at least one of the standard rating services, negotiable certificates of deposits and certain repurchase agreements. The College has no investment policy that would further limit its investment choices.

## 2. Cash and investments – (continued)

Credit risk:

The credit quality rating of the mutual bond fund category of investments as rated by nationally recognized statistical rating organizations at June 30, 2005 was 45% or $8,984,683 rated AAA, 46% or $9,237,759 rated AA, and 9% or $1,721,474 rated BBB.

Custodial credit risk:

The College investment policy does not address custodial credit risk. However, all of the investments are in the name of the College and are held with each financial institution from which they were purchased. Therefore, the custodial risk is limited.

## 3. Property and equipment

The following table presents the changes in various fixed asset class categories for the year ended June 30, 2005 as follows:

| | Beginning Balance | Additions | Transfer/ Deletions | Ending Balance | Estimated Useful Life (in years) |
|---|---|---|---|---|---|
| Nondepreciable capital assets: | | | | | |
| Land | $ 844,173 | $ - | $ - | $ 844,173 | |
| Artwork | 6,200 | - | - | 6,200 | |
| Construction in progress (see note 11) | - | 7,116,499 | - | 7,116,499 | |
| Total nondepreciable capital assets | 850,373 | 7,116,499 | - | 7,966,872 | |
| Depreciable capital assets: | | | | | |
| Buildings and improvements | 127,534,417 | 1,274,492 | - | 128,808,909 | 15 - 50 |
| Infrastructure | 6,894,953 | 362,841 | - | 7,257,794 | 10 - 50 |
| Computer equipment | 2,266,122 | 827,809 | (169,755) | 2,924,176 | 5 - 10 |
| Audio-visual equipment | 642,953 | 25,570 | - | 668,523 | 5 - 10 |
| Other equipment | 7,857,150 | 412,746 | (138,779) | 8,131,117 | 5 - 20 |
| Vehicles | 851,971 | 45,454 | (51,151) | 846,274 | 8 |
| Library books | 1,777,249 | 39,732 | - | 1,816,981 | 5 |
| Total depreciable capital assets | 147,824,815 | 2,988,644 | (359,685) | 150,453,774 | |
| Total capital assets | 148,675,188 | 10,105,143 | (359,685) | 158,420,646 | |
| Less: accumulated depreciation: | | | | | |
| Buildings and improvements | 43,622,783 | 2,529,169 | - | 46,151,952 | |
| Infrastructure | 6,379,452 | 107,435 | - | 6,486,887 | |
| Computer equipment | 1,321,394 | 411,947 | (150,031) | 1,583,310 | |
| Audio-visual equipment | 317,161 | 76,311 | - | 393,472 | |
| Other equipment | 3,759,105 | 403,997 | (114,923) | 4,048,179 | |
| Vehicles | 572,875 | 68,270 | (46,419) | 594,726 | |
| Library books | 1,698,225 | 37,325 | - | 1,735,550 | |
| Total accumulated depreciation | 57,670,995 | 3,634,454 | (311,373) | 60,994,076 | |
| Total net capital assets | $ 91,004,193 | $ 6,470,689 | $ (48,312) | $ 97,426,570 | |

**3. Property and equipment** – (continued)

The following table presents the changes in various fixed asset class categories for the year ended June 30, 2004 as follows:

| | Beginning Balance | Additions | Transfer/ Deletions | Ending Balance | Estimated Useful Life (in years) |
|---|---|---|---|---|---|
| Nondepreciable capital assets: | | | | | |
| Land | $ 446,395 | $ 397,778 | $ - | $ 844,173 | |
| Artwork | 6,200 | - | - | 6,200 | |
| Construction in progress | 308,880 | - | (308,880) | - | |
| Total nondepreciable capital assets | 761,475 | 397,778 | (308,880) | 850,373 | |
| Depreciable capital assets: | | | | | |
| Buildings and improvements | 125,750,349 | 1,475,188 | 308,880 | 127,534,417 | 15 - 50 |
| Infrastructure | 6,807,752 | 87,201 | - | 6,894,953 | 10 - 50 |
| Computer equipment | 1,663,456 | 217,095 | 385,571 | 2,266,122 | 5 - 10 |
| Audio-visual equipment | 622,554 | 14,000 | 6,399 | 642,953 | 5 - 10 |
| Other equipment | 7,715,825 | 404,212 | (262,887) | 7,857,150 | 5 - 20 |
| Vehicles | 790,932 | - | 61,039 | 851,971 | 8 |
| Library books | 1,744,482 | 32,767 | - | 1,777,249 | 5 |
| Total depreciable capital assets | 145,095,350 | 2,230,463 | 499,002 | 147,824,815 | |
| Total capital assets | 145,856,825 | 2,628,241 | 190,122 | 148,675,188 | |
| Less: accumulated depreciation: | | | | | |
| Buildings and improvements | 40,901,960 | 2,720,823 | - | 43,622,783 | |
| Infrastructure | 5,930,781 | 448,671 | - | 6,379,452 | |
| Computer equipment | 980,011 | 327,651 | 13,732 | 1,321,394 | |
| Audio-visual equipment | 248,841 | 68,320 | - | 317,161 | |
| Other equipment | 3,380,953 | 413,723 | (35,571) | 3,759,105 | |
| Vehicles | 512,786 | 75,315 | (15,226) | 572,875 | |
| Library books | 1,667,610 | 30,615 | - | 1,698,225 | |
| Total accumulated depreciation | 53,622,942 | 4,085,118 | (37,065) | 57,670,995 | |
| Total net capital assets | $ 92,233,883 | $ (1,456,877) | $ 227,187 | $ 91,004,193 | |

## 4. Long term liabilities

Long term liabilities of the College consist of bonds, notes and installment purchase loans payable. The changes in long term liabilities for the year ending June 30, 2005 are as shown below.

| | Beginning Balance | Additions | Reductions | Ending Balance | Current Debt Obligations |
|---|---|---|---|---|---|
| Building and Improvement Bonds: | | | | | |
| Series 1994 | $ 390,000 | $ - | $ 390,000 | $ - | $ - |
| Series 1995 | 250,000 | - | 250,000 | - | - |
| Series 1996 | 5,150,000 | - | 4,450,000 | 700,000 | 150,000 |
| Series 1998 | 6,730,000 | - | 1,445,000 | 5,285,000 | 1,275,000 |
| Series 1999 | 2,860,000 | - | 45,000 | 2,815,000 | 45,000 |
| Series 2000 | 23,875,000 | - | 19,850,000 | 4,025,000 | 675,000 |
| Series 2002 | 3,160,000 | - | 435,000 | 2,725,000 | 450,000 |
| Series 2003 | 10,020,000 | - | 535,000 | 9,485,000 | 700,000 |
| Series 2004 | 15,000,000 | - | 850,000 | 14,150,000 | 1,250,000 |
| Series 2005 | - | 22,620,000 | - | 22,620,000 | - |
| Energy Conservation Notes: | | | | | |
| Series 1996-B | 630,000 | - | 305,000 | 325,000 | 325,000 |
| Total bonds and notes payable | 68,065,000 | 22,620,000 | 28,555,000 | 62,130,000 | 4,870,000 |
| Installment Purchase Loan: | | | | | |
| 2002 Bus | 45,357 | - | 14,320 | 31,037 | 15,105 |
| Total bonds, notes and loans payable | $ 68,110,357 | $ 22,620,000 | $ 28,569,320 | 62,161,037 | $ 4,885,105 |
| Current debt obligations | | | | 4,885,105 | |
| Long term debt obligations | | | | $ 57,275,932 | |

Debt service requirements on general obligation bonds, notes, and installment loans are as follows:

| | | Total | Principal | Interest |
|---|---|---|---|---|
| Year ended | June 30, 2006 | $ 7,467,697 | $ 4,885,105 | $ 2,582,592 |
| | June 30, 2007 | 7,564,575 | 5,185,933 | 2,378,642 |
| | June 30, 2008 | 6,870,202 | 4,665,000 | 2,205,202 |
| | June 30, 2009 | 6,938,314 | 4,895,000 | 2,043,314 |
| | June 30, 2010 | 7,144,422 | 5,295,000 | 1,849,422 |
| Remaining years | | 46,665,412 | 37,234,999 | 9,430,413 |
| | | $82,650,622 | $62,161,037 | $20,489,585 |

## 4. Long term liabilities – (continued)

Long term liabilities of the College consist of bonds, notes and installment purchase loans payable. The changes in long term liabilities for the year ending June 30, 2004 are as shown below.

| | Beginning Balance | Additions | Reductions | Ending Balance | Current Debt Obligations |
|---|---|---|---|---|---|
| Building and Improvement Bonds: | | | | | |
| Series 1989 | $ 305,000 | $ - | $ 305,000 | $ - | $ - |
| Series 1990 | 705,000 | - | 705,000 | - | - |
| Series 1991 | 1,610,000 | - | 1,610,000 | - | - |
| Series 1992 | 2,065,000 | - | 2,065,000 | - | - |
| Series 1992-B | 2,225,000 | - | 2,225,000 | - | - |
| Series 1993 | 3,520,000 | - | 3,520,000 | - | - |
| Series 1994 | 4,210,000 | - | 3,820,000 | 390,000 | 390,000 |
| Series 1995 | 4,625,000 | - | 4,375,000 | 250,000 | 250,000 |
| Series 1996 | 5,300,000 | - | 150,000 | 5,150,000 | 150,000 |
| Series 1998 | 3,850,000 | 2,880,000 | - | 6,730,000 | 1,445,000 |
| Series 1999 | 2,905,000 | - | 45,000 | 2,860,000 | 45,000 |
| Series 2000 | 24,500,000 | - | 625,000 | 23,875,000 | 700,000 |
| Series 2002 | 3,585,000 | - | 425,000 | 3,160,000 | 435,000 |
| Series 2003 | - | 10,020,000 | - | 10,020,000 | 535,000 |
| Series 2004 | - | 15,000,000 | - | 15,000,000 | 850,000 |
| Energy Conservation Notes: | | | | | |
| Series 1996-B | 915,000 | - | 285,000 | 630,000 | 305,000 |
| Total bonds and notes payable | 60,320,000 | 27,900,000 | 20,155,000 | 68,065,000 | 5,105,000 |
| Installment Purchase Loan: | | | | | |
| 2002 Bus | 58,934 | - | 13,577 | 45,357 | 14,320 |
| Total bonds, notes and loans payable | $ 60,378,934 | $ 27,900,000 | $ 20,168,577 | 68,110,357 | $ 5,119,320 |
| Current debt obligation | | | | 5,119,320 | |
| Long term debt obligation | | | | $ 62,991,037 | |

The General Obligation Building and Improvement Bonds, Series 1996 , were issued September 30, 1996 to defray part of the cost of making permanent improvements to, renovating, remodeling, improving, equipping, re-equipping, furnishing and refurnishing College buildings and sites; acquiring College buildings and sites for College buildings; and constructing buildings and additions to College buildings. Principal payments ranging from $150,000 to $750,000 are due annually through 2012. Interest is payable semiannually at rates which vary from 5% to 7%.

**4. Long term liabilities** – (continued)

Series 1998 – 2002 bond issues were approved at an election held on May 5, 1998, authorizing issuance of bonds not to exceed $35,900,000. These bonds were issued in a four series of bonds totaling $35,850,000. The purpose is to fund in part, the construction of the new Regional Technology Center, purchasing advanced technology and facility restoration of various areas of the campus.

The General Obligation Building and Improvement and Refunding Bonds, Series 1998, were issued September 1, 1998 for building and site purposes and for refunding all or a portion of certain prior year bond issues. Principal payments ranging from $135,000 to $1,445,000 are due annually through 2019. Interest is payable semiannually at rates which vary from 4.15% to 6.25%.

The General Obligation Building and Improvement Bonds, Series 1999, were issued April 26, 1999 as the second bond series to be issued as a result of the May 5, 1998 election. The purpose being to defray part of the cost of making permanent improvements to, renovating, remodeling, improving, equipping, re-equipping, furnishing and refurnishing College buildings and sites and other buildings to be used by the College for instructional purposes; acquiring College buildings and sites for College buildings; and constructing buildings and additions to College. Principal payments ranging from $45,000 to $210,000 are due annually through 2021. Interest is payable semiannually at rates which vary from 4.25% to 5%.

The General Obligation Building and Improvement Bonds, Series 2000, were issued June, 26, 2000 as the third bond series to be issued as a result of the May 5, 1998 election. The purpose again being to defray part of the cost of making permanent improvements to, renovating, remodeling, improving, equipping, re-equipping, furnishing and refurnishing College buildings and sites and other buildings to be used by the College for instructional purposes; acquiring College buildings and sites for College buildings; and constructing buildings and additions to College. Principal payments ranging from $625,000 to $1,775,000 are due annually through 2021. Interest is payable semiannually at rates which vary from 5.40% to 5.50%.

The General Obligation Building and Improvement Bonds, Series 2002, were issued February, 25, 2002 as the fourth and final bond series to be issued as a result of the May 5, 1998 election. The purpose again being to defray part of the cost of making permanent improvements to, renovating, remodeling, improving, equipping, re-equipping, furnishing and refurnishing College buildings and sites and other buildings to be used by the College for instructional purposes; acquiring College buildings and sites for College buildings; and constructing buildings and additions to College. Principal payments ranging from $425,000 to $475,000 are due annually through 2011. Interest is payable semiannually at rates which vary from 2.50% to 3.80%.

The General Obligation Refunding Bonds, Series 2003, were issued September, 24, 2003 for the purpose of refunding portions of five prior bond issues of the College. Principal payments ranging from $535,000 to $2,000,000 are due annually through 2010. Interest is payable semiannually at rates which vary from 2% to 5%.

The Community College Facilities Refunding Bonds, Series 2005, were issued January, 24, 2005 for the purpose of refunding certain prior outstanding bonds of the College. This refunding activity is described in footnote 10, Advance and Current Refundings. Principal payments ranging from $650,000 to $1,475,000 are due annually through 2019. Interest is payable semiannually at rates which vary from 2.50% to 5%.

The General Obligation Energy Conservation Notes, Series 1996, were issued November 1, 1996. Principal payments ranging from $305,000 to $325,000 are due annually through 2006. Interest is payable semiannually at rates which vary from 4.80% to 5%.

**4. Long term liabilities** – (continued)

An installment purchase loan was created with Arco Leasing Company on January 27, 2003 for the purpose of purchasing a 2002 champion bus. Principal payments ranging from $13,576 to $15,932 are due annually through 2007. Interest is payable annually at a rate of 5.48%.

**5. Land contract receivable**

In April 1998, the College sold land and a building to the Flint Cultural Center on a ten-year land contract for $150,000. Interest is imputed at 5% per annum, and the contract expires on July 1, 2007. The College received a $15,000 down payment and will receive yearly installments of $15,000 until the contract is paid in full. At June 30, 2005 and 2004, the remaining unpaid balance of the land contract was $30,000.

**6. Employee benefits**

Retirement Plan

*Plan Description.* All full-time employees participate in the Michigan Public School Employees' Retirement System (MPSERS), a cost-sharing multiple-employer retirement system. MPSERS is a discretely presented component unit of the State of Michigan and issues a comprehensive annual financial report each year.

MPSERS members participate on a contributory basis. Reporting units are required by Public Act 300 of 1980, as amended, to contribute amounts necessary to finance the coverage of members. Contribution provisions are specified by state statute and may be amended only by action of the state legislature. MPSERS annually issued a stand-alone Comprehensive Annual Financial Report for the year ended September 30, 2003. This report can be obtained by calling (517) 322-5103, or writing to the Office of Retirement Systems, Michigan Public School Employees' Retirement System, 7150 Harris Drive, P.O. Box 30673, Lansing, MI 48909-8103.

During the year ended June 30, 1998, the College adopted Governmental Accounting Standards Board (GASB) Statements No. 26 *Financial Reporting for Postemployment Healthcare Plans Administered by Defined Benefit Plans*, and No. 27 *Accounting for Pensions by State and Local Governmental Employees.*

Regular retirement benefits are payable monthly for the lifetime of a retiree and equal 1½ % of a member's final average compensation. A member may retire with an early permanently reduced pension after: (1) completing at least 15 years but less than 30 years of credited service, (2) attaining age 55, and (3) completing credited service in each of the 5 school years immediately preceding the pension effective date. The early pension is computed in the same manner as a regular pension but permanently reduced by one-half of one percent for each month between the pension effective date and the date the member will attain age 60. MPSERS also provides comprehensive group medical, hearing, dental and vision insurance coverage for retirees and beneficiaries.

A Member Investment Plan (MIP) member may retire at any age with 30 years of credited service; at age 60 with 10 years or more of credited service; or at age 60 with 5 years of credited service provided the member has worked through his or her 60$^{th}$ birthday and has credited service in each of the 5 school fiscal years immediately preceding the pension effective date. A Basic Plan member may retire at age 55 with 30 or more years of credited service, or at age 60 with 10 or more years of credited service. There is no mandatory retirement age.

**6. Employee benefits** – (continued)

Retirement Plan – (continued)

*Funding Policy.* Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute at a permanently fixed rate of 3.9% of gross wages. After December 31, 1989, membership in MIP is mandatory and members contribute at the following graduated permanently fixed contribution rate: 3% for the first $5,000; 3.6% of $5,001 through $15,000; 4.3% of all wages over $15,000. Basic Plan members make no contributions.

The College forwarded $688,053 and $680,403 of MIP contributions withheld from employees during the year ended June 30, 2005 and 2004.

Each MPSERS employer is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care premium amounts on a cash disbursement basis. For the year ended June 30, 2005, the College was required to pay 12.99% of eligible employees' compensation from July 1, 2004 through June 30, 2005. The contributions made by the College amounted to $ 3,786,766, $3,388,480, and $3,321,896, for the years ended June 30, 2005, 2004 and 2003, respectively. All contributions made were equal to required contributions by the MPSERS.

The College's annual contribution represents less than 1% of the total contributions received by the MPSERS. Historical trend information showing funding progress, employer contributions and actuarial assumptions for the entire MPSERS plan is presented in the MPSERS September 30, 2004 comprehensive annual financial report.

*Post-employment benefits.* Under the MPSERS Act, all retirees have the option of continuing health, dental and vision coverage, which are funded on a cash disbursement basis by the employers. The State of Michigan has contracted to provide comprehensive group medical, hearing, dental and vision coverages for retirees and beneficiaries. All health care benefits are on a self-funded basis. A significant portion of the premiums is paid by MPSERS, with the balance deducted from the monthly pension. Public Act 180 also authorized payments to employers as a one time $174.5 million reduction in MPSERS reserves for health benefits, which in years prior to 1991 was pre-funded.

Pension recipients are eligible for fully paid Master Health Plan coverage and 90% paid Dental Plan, Vision Plan and Hearing Plan coverage with the following exceptions:

(1) Retirees not yet eligible for Medicare coverage pay an amount equal to the Medicare Part B premiums.

(2) Retirees with less than 30 years of service, who terminate employment after October 31, 1980 with vested deferred benefits, are eligible for partially paid health benefit coverage.

Dependents are eligible for 90% employer paid health coverage.

During the year ended September 30, 2004, there were 145,588 eligible participants in the MPSERS that are eligible to receive benefits, of which, 117,726 are currently receiving benefits. Benefit expenditures for the post-employment benefits for the MPSERS as a whole were $666,633,603 for the year ended September 30, 2004.

## 6. Employee benefits – (continued)

Defined Contribution Plan

On July 13, 1994, the Governor signed Public Act No. 296 of 1994. This legislation amended Section 2 of Act No. 156 of the Public Acts of 1967 to include community colleges in the definition of higher education. This Act allows community colleges, beginning October 1, 1994, to offer to members of faculty and administrative staff on a full-time basis a defined contribution plan as an alternative to MPSERS. On December 19, 1994, the College agreed to establish such a plan. On January 23, 1995, the College approved a plan to be implemented effective February 1, 1995, of which Teachers Insurance and Annuity Association College Retirement Equities Fund (TIAA-CREF) was the chosen provider. Eligibility is defined as full-time faculty, supervisors and managers, and exempt managers. In addition, on July 28, 1997, the College approved this plan to be made available to Pro-Tech employees and Exempt Non-Management employees. Contribution requirements match those under MPSERS plus an additional 3.54%, and call for full immediate vesting. For the year ended June 30, 2005 and 2004, the College was required to pay 16.53% of eligible employees' compensation. Due to a rate reduction approved by the College's Board of Trustees in December 2002, for employees hired on or after January 1, 2003, the College is required to contribute 10% of participating employee's salaries. Effective October 1, 2004, the rate for faculty is equal to the MPSERS rate of 14.87%. Eligible employees are able to select an investment portfolio from several available fund choices. Withdrawals may be made beginning at age 55. No health insurance is available under the plan. The College's covered payroll and total payroll for the year ended June 30, 2005 amounted to $6,129,483 and $35,467,361, respectively. The College's covered payroll and total payroll for the year ended June 30, 2004 amounted to $5,808,415 and $34,751,811, respectively.

Contributions made by the College during the year ended June 30, 2005 and 2004 were $991,966 and $947,329 respectively.

## 7. Contingencies and commitments

The College participates in various grant programs, both federal and state sponsored. Compliance audits in accordance with OMB Circular A-133 have been conducted and reported under a separate cover. The A-133 report has not yet been accepted by the grantor agencies. However, management expects any disallowed costs, if any, to be immaterial in relation to the financial statements taken as a whole. The College also has various construction contract commitments. Note number 11 describes these commitments.

## 8. Employee severance plan

During the year ended June 30, 1998, the College implemented an employee severance plan for early retirement of employees who meet certain criteria. The plan offered three exit date options, of which the first two fell within the fiscal year ended June 30, 1998; and the final date falling within the fiscal year ending June 30, 1999. Benefits shall be paid in 96 equal monthly payments except if the employee is over age 59 at the time payments begin, then the number of monthly installments shall be reduced so that all payments will be completed by the employee's 67$^{th}$ birthday.

**8. Employee severance plan** – (continued)

The following represents a listing of the estimated future payments to be made by the College related to this liability which is included in the "accrued payroll and related liabilities" line of the Balance Sheet:

| Year ended June 30, | |
|---|---|
| 2006 | $121,402 |
| 2007 | 37,292 |
| | 158,694 |
| Less amount representing interest | (1,745) |
| Present value of liability at June 30, 2005 | $156,949 |

**9. Leases**

Main Campus:
The College annually leases space on the main campus to various entities. The lease terms are for a one year period from July 1, 2004 to June 30, 2005. Under the 2004-2005 lease, the aggregate monthly rental payments were $5,619, for an annual total of $67,428. Under the 2003-2004 lease, the aggregate monthly rental payments were $7,203, for an annual total of $86,433.

Lapeer Branch Campus:
The College annually leases space within the Lapeer Campus, to various entities. The lease terms are for a one year period from July 1, 2004 to June 30, 2005. Under the 2004-2005 lease, the aggregate monthly rental payment was $7,414 for an annual total of $88,967. Under the 2003-2004 lease, the aggregate monthly rental payment was $7,871 for an annual total of $94,449.

Livingston M-Tec:
The College annually leases space within the Livingston M-Tec Building, to another entity. The lease term is for a one year period from July 1, 2004 to June 30, 2005. Under the 2004-2005 lease, the monthly rental payment was $724 for an annual total of $8,658. Under the 2003-2004 lease, the monthly rental payment was $1,356 for an annual total of $16,274.

Southern Lakes Branch Campus:
The College annually leases space within the Southern Lakes Branch Campus to various entities. The lease terms are for a one year period from July 1, 2004 to June 30, 2005. Under the 2004-2005 lease, the aggregate monthly rental payment was $18,455 for an annual total of $221,460. Under the 2003-2004 lease, the aggregate monthly rental payment was $18,029 for an annual total of $216,348.

## 10. Advance and current refundings

On January 24, 2005 the College issued $22,620,000 in Series 2005 General Obligation Refunding Bonds with an average interest rate of 3.81%. These bonds were issued to advance refund a portion of the 1996 Series and 2000 Series bonds in the amounts of $4,300,000, and $19,150,000, respectively, with an average interest rate of 5.42%. In addition, the College paid $1,543,000 toward the advance refunding of the above mentioned bond series issues. The net proceeds along with the College's contribution totaled $24,479,757 (after payment of $302,206 in underwriting fees, insurance and other issuance costs). These funds were used to purchase U.S. Government securities. Those securities and the College's contribution were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded portion of these respective bonds. As a result, the refunded portion of the bonds are considered defeased with the liability for these bonds removed from the capital position fund. The advance refunding reduced total debt service payments by approximately $3,341,778, which represents a present value economic gain of approximately $1,083,712.

The College has issuance costs, as well as bond premiums in connection with the refunding. These items are accrued and are being amortized over the life of the bonds using the straight line method.

## 11. Construction in progress

The College started construction on renovation of the Gorman Science Center during fiscal year 2004-2005. The total contract for this project is $2,118,083. As of June 30, 2005 expenditures totaled $1,335,729, including $67,318 in retainage, leaving a remaining commitment of approximately $782,354. The completion date is scheduled for early fall of 2005. Additionally, an Energy Conservation project was started during fiscal year 2004-2005, with contracts totaling $7,378,764. As of June 30, 2005 expenditures totaled $5,780,770, including $223,086 in retainage, leaving a remaining commitment of approximately $1,597,994. The completion date for this project is scheduled for fall 2005. As of June 30, 2004 there was no construction in progress.

## 12. Risk Management

The College is exposed to various risks of loss related to property loss, errors and omissions, employee injuries (workers' compensation), as well as medical benefits provided to employees. The College has purchased commercial insurance for property loss, errors and omissions and medical benefits provided to employees. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

## Additional Information

**Mott Community College**
**Combining Balance Sheet**
**June 30, 2005**

| | Combined Total | General Fund | Designated Fund |
|---|---|---|---|
| **Assets** | | | |
| Current assets | | | |
| Cash and cash equivalents | $ 4,454,256 | $ 3,466,014 | $ - |
| Short term investments | 18,819,014 | 6,159,879 | - |
| State appropriation receivable | 2,514,682 | 2,514,682 | - |
| Accounts receivable | 3,696,566 | 3,122,015 | 9,682 |
| Less allowance for uncollectible accounts | (1,671,972) | (1,671,972) | - |
| Federal and state grants receivable | 2,190,802 | - | - |
| Inventories | 57,551 | 57,551 | - |
| Prepaid expenses and other assets | 688,641 | 494,950 | - |
| Deferred charges | 1,980,008 | - | - |
| Total current assets | 32,729,548 | 14,143,119 | 9,682 |
| Long term investments | 35,277,727 | - | - |
| Bond discount | 351,060 | - | - |
| Property and equipment - net of $60,994,076 accumulated depreciation | 97,426,570 | - | - |
| Total assets | $ 165,784,905 | $ 14,143,119 | $ 9,682 |

| Auxiliary Fund | Agency Fund | Expendable Restricted Fund | Student Loan Fund | Endowment Fund | Plant Fund |
|---|---|---|---|---|---|
| $ - | $ 63,800 | $ - | $ 11,953 | 912,489 | $ - |
| - | - | - | - | - | 12,659,135 |
| - | - | - | - | - | - |
| 177,795 | 213,967 | 13,200 | 4,795 | 149,928 | 5,184 |
| - | - | - | - | - | - |
| - | - | 2,190,802 | - | - | - |
| - | - | - | - | - | - |
| - | 193,691 | - | - | - | - |
| - | - | - | - | - | 1,980,008 |
| 177,795 | 471,458 | 2,204,002 | 16,748 | 1,062,417 | 14,644,327 |
| - | 219,840 | - | - | 35,057,887 | - |
| - | - | - | - | - | 351,060 |
| - | - | - | - | - | 97,426,570 |
| $ 177,795 | $ 691,298 | $ 2,204,002 | $ 16,748 | $ 36,120,304 | $ 112,421,957 |

(continued)

**Mott Community College**
**Combining Balance Sheet (continued)**
**June 30, 2005**

| | Combined Total | General Fund | Designated Fund |
|---|---|---|---|
| **Liabilities and Net Assets** | | | |
| Current liabilities: | | | |
| Current portion of debt obligations | $ 4,885,105 | $ - | $ - |
| Accounts payable | 1,956,364 | 1,636,683 | - |
| Due to (from) other funds | - | (1,327,037) | (724,187) |
| Accrued interest payable | 360,310 | - | - |
| Accrued payroll and related liabilities | 3,346,677 | 3,346,677 | - |
| Deposits held for others | 578,022 | 7,370 | - |
| Unearned revenue | 2,338,594 | 2,051,640 | 108,516 |
| Total current liabilities | 13,465,072 | 5,715,333 | (615,671) |
| Long term debt obligations | 57,275,932 | - | - |
| Accrued termination pay | 3,835,727 | 3,835,727 | - |
| Bond premium | 1,579,283 | - | - |
| Total liabilities | 76,156,014 | 9,551,060 | (615,671) |
| Net assets: | | | |
| Invested in capital assets, net of related debt | 35,251,213 | - | - |
| Restricted for | | | |
| Nonexpendable | 35,701,327 | - | - |
| Expendable | | | |
| Student loans | 66,799 | - | - |
| Scholarships and awards | 4,589 | - | - |
| Capital projects | 6,100,246 | - | - |
| Debt service | 2,480,651 | - | - |
| Unrestricted | 10,024,066 | 4,592,059 | 625,353 |
| Total net assets | 89,628,891 | 4,592,059 | 625,353 |
| Total liabilities and net assets | $ 165,784,905 | $ 14,143,119 | $ 9,682 |

| Auxiliary Fund | Agency Fund | Expendable Restricted Fund | Student Loan Fund | Endowment Fund | Plant Fund |
|---|---|---|---|---|---|
| $ - | $ - | $ - | $ - | $ - | $ 4,885,105 |
| - | 14,292 | 14,985 | - | - | 290,404 |
| 177,795 | 106,354 | 2,005,990 | (50,051) | 418,977 | (607,841) |
| - | - | - | - | - | 360,310 |
| - | - | - | - | - | - |
| - | 570,652 | - | - | - | - |
| - | - | 178,438 | - | - | - |
| 177,795 | 691,298 | 2,199,413 | (50,051) | 418,977 | 4,927,978 |
| - | - | - | - | - | 57,275,932 |
| - | - | - | - | - | - |
| - | - | - | - | - | 1,579,283 |
| 177,795 | 691,298 | 2,199,413 | (50,051) | 418,977 | 63,783,193 |
| - | - | - | - | - | 35,251,213 |
| - | - | - | - | 35,701,327 | - |
| - | - | - | 66,799 | - | - |
| - | - | 4,589 | - | - | - |
| - | - | - | - | - | 6,100,246 |
| - | - | - | - | - | 2,480,651 |
| - | - | - | - | - | 4,806,654 |
| - | - | 4,589 | 66,799 | 35,701,327 | 48,638,764 |
| $ 177,795 | $ 691,298 | $ 2,204,002 | $ 16,748 | $ 36,120,304 | $ 112,421,957 |

**Mott Community College**
**Combining Statement of Revenues, Expenses, Transfers and Changes in Net Assets**
**June 30, 2005**

| | Combined Total | Eliminations | General Fund |
|---|---|---|---|
| **Revenues:** | | | |
| Operating revenues | | | |
| Tuition and fees | $ 22,809,215 | $ - | $ 21,576,205 |
| Less scholarship allowances | (6,766,652) | (6,766,652) | - |
| Federal grants and contracts | 14,337,427 | - | - |
| State and local grants and contracts | 2,083,301 | - | - |
| Nongovernmental grants | 1,515,097 | - | 29,801 |
| Auxiliary enterprises | 693,518 | - | - |
| Expenditures for equipment and capital improvements | - | (10,105,143) | - |
| Miscellaneous | 1,439,008 | - | 1,000,977 |
| Total operating revenues | 36,110,914 | (16,871,795) | 22,606,983 |
| **Expenses:** | | | |
| Operating expenses | | | |
| Instruction | 27,057,425 | (1,353,872) | 25,282,758 |
| Public service | 2,377,924 | (107,742) | 216,657 |
| Instructional support | 8,800,419 | (21,505) | 6,700,549 |
| Student services | 13,509,593 | (6,947,819) | 5,496,433 |
| Institutional administration | 7,183,033 | (1,417,460) | 7,972,057 |
| Operation and maintenance of plant | 8,783,418 | (6,957,540) | 7,974,940 |
| Depreciation | 3,634,454 | - | - |
| Technology | 4,748,390 | (65,857) | 2,541,444 |
| Total operating expenses | 76,094,656 | (16,871,795) | 56,184,838 |
| Operating income (loss) | (39,983,742) | - | (33,577,855) |
| **Non-Operating Revenues (Expenses):** | | | |
| State appropriations | 14,894,743 | - | 14,894,743 |
| Property tax levy | 28,276,546 | - | 20,989,013 |
| Gifts | 746,762 | - | 746,762 |
| Investment income | 662,420 | - | 328,066 |
| Net realized and unrealized gain on investments | 2,998,725 | - | - |
| Interest on capital asset - related debt | (2,475,726) | - | - |
| Loss on disposal of assets | (48,312) | - | - |
| Bond issuance costs | (302,206) | - | - |
| Net non-operating revenues | 44,752,952 | - | 36,958,584 |
| Income (loss) before other revenues and expenses | 4,769,210 | - | 3,380,729 |
| **Other Revenues:** | | | |
| State capital appropriations | 405,732 | - | - |
| Capital gifts and grants | 58,421 | - | - |
| Total other revenues | 464,153 | - | - |
| Increase (decrease) in net assets | 5,233,363 | - | 3,380,729 |
| Transfers in (out) | - | | (2,973,010) |
| Net increase (decrease) in net assets | 5,233,363 | - | 407,719 |
| **Net Assets:** | | | |
| Net assets - beginning of year | 84,395,528 | - | 4,184,340 |
| Net assets - end of year | $ 89,628,891 | $ - 0 - | $ 4,592,059 |

| Designated Fund | Auxiliary Fund | Expendable Restricted Fund | Student Loan Fund | Endowment Fund | Plant Fund |
|---|---|---|---|---|---|
| $ 1,233,010 | $ - | $ - | $ - | $ - | $ - |
| - | - | - | - | - | - |
| - | - | 14,337,427 | - | - | - |
| - | - | 2,083,301 | - | - | - |
| - | - | 1,485,296 | - | - | - |
| - | 693,518 | - | - | - | - |
| - | - | - | - | - | 10,105,143 |
| 380,483 | - | - | - | - | 57,548 |
| 1,613,493 | 693,518 | 17,906,024 | - | - | 10,162,691 |
| - | - | 1,130,419 | - | - | 1,998,120 |
| - | - | 2,156,147 | - | - | 112,862 |
| - | - | 1,982,270 | - | - | 139,105 |
| 796,982 | 85,729 | 12,552,566 | - | 1,028,818 | 496,884 |
| - | 247,385 | 130,347 | - | - | 250,704 |
| - | - | 6,288 | - | - | 7,759,730 |
| - | - | - | - | - | 3,634,454 |
| - | - | - | - | - | 2,272,803 |
| 796,982 | 333,114 | 17,958,037 | - | 1,028,818 | 16,664,662 |
| 816,511 | 360,404 | (52,013) | - | (1,028,818) | (6,501,971) |
| - | - | - | - | - | - |
| - | - | - | - | - | 7,287,533 |
| - | - | - | - | - | - |
| - | - | 163 | 391 | - | 333,800 |
| - | - | - | - | 2,998,725 | - |
| - | - | - | - | - | (2,475,726) |
| - | - | - | - | - | (48,312) |
| - | - | - | - | - | (302,206) |
| - | - | 163 | 391 | 2,998,725 | 4,795,089 |
| 816,511 | 360,404 | (51,850) | 391 | 1,969,907 | (1,706,882) |
| - | - | - | - | - | 405,732 |
| - | - | - | - | - | 58,421 |
| - | - | - | - | - | 464,153 |
| 816,511 | 360,404 | (51,850) | 391 | 1,969,907 | (1,242,729) |
| (518,366) | (360,404) | 43,097 | - | - | 3,808,683 |
| 298,145 | - | (8,753) | 391 | 1,969,907 | 2,565,954 |
| 327,208 | - | 13,342 | 66,408 | 33,731,420 | 46,072,810 |
| $ 625,353 | $ - 0 - | $ 4,589 | $ 66,799 | $ 35,701,327 | $ 48,638,764 |

**Mott Community College**
**Schedule 1 - Details of General Fund Expenses**
**Year Ended June 30, 2005**

| | Salaries | Fringe Benefits | Services | Materials and Supplies |
|---|---|---|---|---|
| Instruction | $ 18,105,153 | $ 6,011,517 | $ 568,929 | $ 467,615 |
| Public service | 122,043 | 30,409 | 50,366 | 1,593 |
| Instructional support | 3,971,319 | 1,642,095 | 345,214 | 182,398 |
| Student services | 3,427,015 | 1,257,416 | 290,940 | 172,921 |
| Institutional administration | 2,874,013 | 1,672,935 | 932,147 | 111,406 |
| Physical plant operations | 3,199,687 | 1,414,393 | 741,371 | 719,238 |
| Technology | 838,724 | 383,799 | 1,016,706 | 29,820 |
| | $ 32,537,954 | $ 12,412,564 | $ 3,945,673 | $ 1,684,991 |

| Facilities Rent | Utilities and Insurance | Other Expenses | Capital Outlay | Total |
|---|---|---|---|---|
| $ 30,140 | $ 750 | $ 94,447 | $ 4,207 | $ 25,282,758 |
| 4,240 | - | 8,006 | - | 216,657 |
| 82,081 | 63,523 | 355,786 | 58,133 | 6,700,549 |
| 263 | - | 347,878 | - | 5,496,433 |
| 14,952 | 176,617 | 2,189,987 | - | 7,972,057 |
| - | 1,892,036 | 8,215 | - | 7,974,940 |
| - | - | 272,395 | - | 2,541,444 |
| $ 131,676 | $ 2,132,926 | $ 3,276,714 | $ 62,340 | $ 56,184,838 |

## Mott Community College
## Schedule 2 - Details of Auxiliary Activities
## Year Ended June 30, 2005

| Activity | Balance July 1, 2004 | Revenues | Expenditures (1) |
|---|---|---|---|
| Vending | $ - | $ 121,623 | $ - |
| Outside Catering | - | 163,824 | 247,385 |
| Bookstore--Main Campus | - | 350,045 | 32,331 |
| Bookstore--Lapeer Campus | - | 2,010 | 1,168 |
| Pay Phones | - | 1 | - |
| Campus Kids Day Care | - | 52,291 | 52,230 |
| Student Computer Lab Printing | - | 3,724 | - |
| | $ - 0 - | $ 693,518 | $ 333,114 |

(1) Expenses include amounts allocated from the General Fund for utilities, maintenance and administrative costs. These costs amounted to $32,331 for the bookstore.

| Transfers In (Out) | | |
|---|---|---|
| Excess Revenues to General Fund | Excess Expenditures Absorbed by General Fund | Balance June 30, 2005 |
| $ 121,623 | - | $ - |
| - | 83,561 | - |
| 317,714 | - | - |
| 842 | - | - |
| 1 | - | - |
| 61 | - | - |
| 3,724 | - | - |
| $ 443,965 | $ 83,561 | $ - 0 - |

**Mott Community College**
**Schedule 3 - Details of Endowments and Similar Funds**
**Year Ended June 30, 2005**

| | Principal Balance July 1, 2004 | Additions: Gifts | Additions: Income from Investments |
|---|---|---|---|
| Endowment Funds: | | | |
| Administered by Mott Community College: | | | |
| Abe & Shirley Schreiber Memorial Scholarship Fund | $ - | $ - | $ 817 |
| Art Enrichment Fund | - | - | 26 |
| Ava Underhill Scholarship Fund | - | - | 65 |
| Begole Brownell Fund | - | - | 3,635 |
| Bertha F. Dunlap Trust Fund | - | - | 129 |
| Douglas Larmor Music Scholarship Fund | - | - | 82 |
| General Scholarship Fund | - | - | 494 |
| Goodrich - Skidmore Disabled Veterans Scholorship Fund | 5,000 | - | 163 |
| Jack J. & Gary I. Sarver Memorial Scholarship Fund | 10,000 | - | 327 |
| Nicholas S. Gyptos Scholarship Fund | 5,000 | - | 163 |
| O.M. MacArthur Music Scholarship Fund | - | - | 13 |
| Oz Kelly Memorial Scholarship Fund | 8,000 | - | 261 |
| Robert Haw Scholarship Fund | 25,000 | - | 817 |
| Sidney B. Melet Scholarship Fund | 5,100 | - | 167 |
| Wendell Williams Scholarship Fund | 10,000 | - | 327 |
| Total administered by M.C.C. | 68,100 | - | 7,486 |
| Administered by others: | | | |
| Glen L. Bancroft Trust Fund | 221,533 | - | 10,226 |
| John L. Pierce Educational Fund | 151,978 | - | 6,893 |
| Wesley F. Burdick Scholarship Fund | 578,955 | - | 26,275 |
| William S. Ballenger Trust Fund | 32,656,704 | - | 1,500,393 |
| Vernon A. Martin Trust Fund | 54,150 | - | 2,044 |
| Total administered by others | 33,663,320 | - | 1,545,831 |
| Total endowment funds | 33,731,420 | - | 1,553,317 |
| Funds functioning as endowments: | | | |
| Chester Smith Memorial Fund | - | - | 214 |
| Juanita Carr Estate Library Fund | - | - | 3,320 |
| Total funds functioning as endowments | - | - | 3,534 |
| Total | $ 33,731,420 | $ - 0 - | $ 1,556,851 |

| Deductions | | | | |
|---|---|---|---|---|
| Gain (Loss) from Disposal of Investments | Administrative Expenses | Distributions | Principal Balance June 30, 2005 | Beneficiary Fund |
| $ - | $ - | $ 817 | $ - | Schreiber Memorial Scholarship Fund |
| - | - | 26 | - | Art Division Gifts (PG & G) |
| - | - | 65 | - | Underhill Music Scholarship Fund |
| - | - | 3,635 | - | Begole Brownell Fund (PG & G) |
| - | - | 129 | - | General Scholarship Fund |
| - | - | 82 | - | Douglas Larmor Music Scholarship Fund |
| - | - | 494 | - | General Scholarship Fund |
| - | - | 163 | 5,000 | Goodrich - Skidmore Scholarship Fund |
| - | - | 327 | 10,000 | General Scholarship Fund |
| - | - | 163 | 5,000 | General Scholarship Fund |
| - | - | 13 | - | MacArthur Music Scholarship Fund |
| - | - | 261 | 8,000 | General Scholarship Fund |
| - | - | 817 | 25,000 | General Scholarship Fund |
| - | - | 167 | 5,100 | General Scholarship Fund |
| - | - | 327 | 10,000 | General Scholarship Fund |
| - | - | 7,486 | 68,100 | |
| 11,029 | 2,538 | 5,427 | 234,823 | General Scholarship Fund |
| 6,454 | 1,133 | 2,249 | 161,943 | Designated Fund |
| 25,306 | 4,319 | 8,640 | 617,577 | General Scholarship Fund |
| 1,395,601 | 243,539 | 746,762 | 34,562,397 | Unrestricted General Fund |
| 3,484 | 399 | 2,792 | 56,487 | Vernon A. Martin Trust (PG & G) |
| 1,441,874 | 251,928 | 765,870 | 35,633,227 | |
| 1,441,874 | 251,928 | 773,356 | 35,701,327 | |
| - | - | 214 | - | Chester Smith Memorial Fund (PG & G) |
| - | - | 3,320 | - | Juanita Carr Library Grant (PG & G) |
| - | - | 3,534 | - | |
| $ 1,441,874 | $ 251,928 | $ 776,890 | $ 35,701,327 | |

**Mott Community College**
**Schedule 4 - Schedule of Debt Service Requirements**
**1996 Building and Improvement Bonds**
**June 30, 2005**

| Fiscal Year Ended June 30 | Interest July 1 | Interest January 1 | Principal July 1 | Total Requirements |
|---|---|---|---|---|
| 2006 | $ 24,500 | $ 19,250 | $ 150,000 | $ 193,750 |
| 2007 | 19,250 | - | 550,000 | 569,250 |
| | $ 43,750 | $ 19,250 | $ 700,000 | $ 763,000 |

**Mott Community College**
**Schedule 5 - Schedule of Debt Service Requirements**
**1996-B Energy Conservation Notes**
**June 30, 2005**

| Fiscal Year Ended June 30 | Interest June 1 | Interest December 1 | Principal June 1 | Total Requirements |
|---|---|---|---|---|
| 2006 | $ 8,125 | $ 8,125 | $ 325,000 | $ 341,250 |
| | $ 8,125 | $ 8,125 | $ 325,000 | $ 341,250 |

**Mott Community College**
**Schedule 6 - Schedule of Debt Service Requirements**
**1998 Refunding and Building and Improvement Bonds**
**June 30, 2005**

| Fiscal Year Ended June 30 | Interest July 1 | Interest January 1 | Principal July 1 | | Total Requirements |
|---|---|---|---|---|---|
| 2006 | $ 120,415 | $ 93,640 | $ 1,275,000 | | $ 1,489,055 |
| 2007 | 93,640 | 82,030 | 540,000 | | 715,670 |
| 2008 | 82,030 | 77,811 | 135,000 | | 294,841 |
| 2009 | 77,811 | 74,549 | 150,000 | * | 302,360 |
| 2010 | 74,549 | 71,249 | 150,000 | * | 295,798 |
| 2011 | 71,249 | 65,130 | 275,000 | * | 411,379 |
| 2012 | 65,130 | 58,380 | 300,000 | * | 423,510 |
| 2013 | 58,380 | 51,555 | 300,000 | * | 409,935 |
| 2014 | 51,555 | 44,655 | 300,000 | * | 396,210 |
| 2015 | 44,655 | 37,605 | 300,000 | * | 382,260 |
| 2016 | 37,605 | 30,480 | 300,000 | * | 368,085 |
| 2017 | 30,480 | 23,280 | 300,000 | * | 353,760 |
| 2018 | 23,280 | 15,520 | 320,000 | * | 358,800 |
| 2019 | 15,520 | 7,760 | 320,000 | * | 343,280 |
| 2020 | 7,760 | - | 320,000 | * | 327,760 |
| | $ 854,059 | $ 733,644 | $ 5,285,000 | | $ 6,872,703 |

* Callable

# Mott Community College
## Schedule 7 - Schedule of Debt Service Requirements
## 1999 Building and Improvement Bonds
## June 30, 2005

| Fiscal Year Ended June 30 | Interest July 1 | Interest January 1 | Principal July 1 | | Total Requirements |
|---|---|---|---|---|---|
| 2006 | $ 64,795 | $ 63,839 | $ 45,000 | | $ 173,634 |
| 2007 | 63,839 | 62,458 | 65,000 | | 191,297 |
| 2008 | 62,458 | 61,076 | 65,000 | | 188,534 |
| 2009 | 61,076 | 59,376 | 80,000 | | 200,452 |
| 2010 | 59,376 | 56,796 | 120,000 | * | 236,172 |
| 2011 | 56,795 | 53,860 | 135,000 | * | 245,655 |
| 2012 | 53,860 | 49,350 | 205,000 | * | 308,210 |
| 2013 | 49,350 | 44,678 | 210,000 | * | 304,028 |
| 2014 | 44,678 | 39,953 | 210,000 | * | 294,631 |
| 2015 | 39,953 | 35,175 | 210,000 | * | 285,128 |
| 2016 | 35,175 | 30,345 | 210,000 | * | 275,520 |
| 2017 | 30,345 | 25,463 | 210,000 | * | 265,808 |
| 2018 | 25,463 | 20,528 | 210,000 | * | 255,991 |
| 2019 | 20,528 | 15,540 | 210,000 | * | 246,068 |
| 2020 | 15,540 | 10,500 | 210,000 | * | 236,040 |
| 2021 | 10,500 | 5,250 | 210,000 | * | 225,750 |
| 2022 | 5,250 | - | 210,000 | * | 215,250 |
| | $ 698,981 | $ 634,187 | $ 2,815,000 | | $ 4,148,168 |

* Callable

**Mott Community College**
**Schedule 8 - Schedule of Debt Service Requirements**
**2000 Building and Improvement Bonds**
**June 30, 2005**

| Fiscal Year Ended June 30 | Interest November 1 | Interest May 1 | Principal May 1 | Total Requirements |
|---|---|---|---|---|
| 2006 | $ 108,675 | $ 108,675 | $ 675,000 | $ 892,350 |
| 2007 | 90,450 | 90,450 | 725,000 | 905,900 |
| 2008 | 70,875 | 70,875 | 725,000 | 866,750 |
| 2009 | 51,300 | 51,300 | 800,000 | 902,600 |
| 2010 | 29,700 | 29,700 | 1,100,000 | 1,159,400 |
| | $ 351,000 | $ 351,000 | $ 4,025,000 | $ 4,727,000 |

**Mott Community College**
**Schedule 9 - Schedule of Debt Service Requirements**
**2002 Building and Improvement Bonds**
**June 30, 2005**

| Fiscal Year Ended June 30 | Interest November 1 | Interest May 1 | Principal May 1 | Total Requirements |
|---|---|---|---|---|
| 2006 | $ 48,400 | $ 48,400 | $ 450,000 | $ 546,800 |
| 2007 | 41,650 | 41,650 | 450,000 | 533,300 |
| 2008 | 34,113 | 34,112 | 450,000 | 518,225 |
| 2009 | 26,012 | 26,013 | 450,000 | 502,025 |
| 2010 | 17,575 | 17,575 | 450,000 | 485,150 |
| 2011 | 9,025 | 9,025 | 475,000 | 493,050 |
| | $ 176,775 | $ 176,775 | $ 2,725,000 | $ 3,078,550 |

# Mott Community College
## Schedule 10 - Schedule of Debt Service Requirements
## 2003 Refunding and Building and Improvement Bonds
## June 30, 2005

| Fiscal Year Ended June 30 | Interest July 1 | Interest January 1 | Principal July 1 | Total Requirements |
|---|---|---|---|---|
| 2006 | $ 150,600 | $ 143,600 | $ 700,000 | $ 994,200 |
| 2007 | 143,600 | 128,900 | 1,470,000 | 1,742,500 |
| 2008 | 128,900 | 105,900 | 1,840,000 | 2,074,800 |
| 2009 | 105,900 | 76,425 | 1,965,000 | 2,147,325 |
| 2010 | 76,425 | 26,425 | 2,000,000 | 2,102,850 |
| 2011 | 26,425 | - | 1,510,000 | 1,536,425 |
| | $ 631,850 | $ 481,250 | $ 9,485,000 | $ 10,598,100 |

# Mott Community College
## Schedule 11 - Schedule of Debt Service Requirements
## 2004 Building and Improvement Bonds
## June 30, 2005

| Fiscal Year Ended June 30 | Interest November 1 | Interest May 1 | Principal May 1 | | Total Requirements |
|---|---|---|---|---|---|
| 2006 | $ 276,713 | $ 276,713 | $ 1,250,000 | | $ 1,803,426 |
| 2007 | 251,713 | 251,713 | 800,000 | | 1,303,426 |
| 2008 | 241,713 | 241,713 | 800,000 | | 1,283,426 |
| 2009 | 229,713 | 229,713 | 650,000 | | 1,109,426 |
| 2010 | 219,963 | 219,963 | 700,000 | | 1,139,926 |
| 2011 | 208,150 | 208,150 | 750,000 | | 1,166,300 |
| 2012 | 195,025 | 195,025 | 825,000 | | 1,215,050 |
| 2013 | 180,072 | 180,072 | 900,000 | | 1,260,144 |
| 2014 | 162,072 | 162,072 | 1,000,000 | | 1,324,144 |
| 2015 | 142,072 | 142,072 | 1,100,000 | * | 1,384,144 |
| 2016 | 119,384 | 119,384 | 1,200,000 | * | 1,438,768 |
| 2017 | 93,884 | 93,884 | 1,300,000 | * | 1,487,768 |
| 2018 | 65,609 | 65,609 | 1,400,000 | * | 1,531,218 |
| 2019 | 34,109 | 34,109 | 1,475,000 | * | 1,543,218 |
| | $ 2,420,192 | $ 2,420,192 | $ 14,150,000 | | $ 18,990,384 |

* Callable

**Mott Community College**
**Schedule 12 - Schedule of Debt Service Requirements**
**2005 Building and Improvement Bonds**
**June 30, 2005**

| Fiscal Year Ended June 30 | Interest November 1 | Interest May 1 | Principal May 1 | Total Requirements |
|---|---|---|---|---|
| 2006 | $ 508,213 | $ 508,213 | $ - | $ 1,016,426 |
| 2007 | 508,213 | 508,213 | 570,000 | 1,586,426 |
| 2008 | 496,813 | 496,813 | 650,000 | 1,643,626 |
| 2009 | 487,063 | 487,063 | 800,000 | 1,774,126 |
| 2010 | 475,063 | 475,063 | 775,000 | 1,725,126 |
| 2011 | 462,469 | 462,469 | 2,400,000 | 3,324,938 |
| 2012 | 420,469 | 420,469 | 2,425,000 | 3,265,938 |
| 2013 | 375,000 | 375,000 | 1,650,000 | 2,400,000 |
| 2014 | 333,750 | 333,750 | 1,650,000 | 2,317,500 |
| 2015 | 292,500 | 292,500 | 1,650,000 | 2,235,000 |
| 2016 | 251,250 | 251,250 | 1,675,000 | 2,177,500 |
| 2017 | 209,375 | 209,375 | 1,675,000 | 2,093,750 |
| 2018 | 167,500 | 167,500 | 1,675,000 | 2,010,000 |
| 2019 | 125,625 | 125,625 | 1,675,000 | 1,926,250 |
| 2020 | 83,750 | 83,750 | 1,675,000 | 1,842,500 |
| 2021 | 41,875 | 41,875 | 1,675,000 | 1,758,750 |
| | $ 5,238,928 | $ 5,238,928 | $ 22,620,000 | $ 29,496,606 |

# Federal Awards
# Supplemental Information

## Mott Community College

## June 30, 2005

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plante moran

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Independent Auditors' Report

To the Board of Trustees
Mott Community College
Flint, Michigan

We have audited the basic financial statements of Mott Community College for the year ended June 30, 2005, and have issued our report thereon dated October 14, 2005. Those basic financial statements are the responsibility of the management of the Mott Community College. Our responsibility was to express an opinion on those basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of the Mott Community College as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis and is not a required part of the basic financial statements. The information in this schedule has been subjected to the auditing procedures applied in the audit of the basic financial statement and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Plante & Moran, PLLC

October 14, 2005

plante moran

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Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Board of Trustees
Mott Community College
Flint, Michigan

We have audited the financial statements of Mott Community College, Flint, Michigan, as of and for the year ended June 30, 2005, and have issued our report thereon dated October 14, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control over Financial Reporting**

In planning and performing our audit, we considered Mott Community College's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level that risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operations that we consider to be material weaknesses.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Mott Community College's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreement, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Trustees, management, federal awarding agencies, and pass-through entities and is not intended to be used and should not be used by anyone other than these specified parties.

Plante & Moran, PLLC

October 14, 2005

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Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133

Board of Trustees
Mott Community College
Flint, Michigan

**Compliance**

We have audited the compliance of Mott Community College with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2005. The major programs of Mott Community College are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Mott Community College's management. Our responsibility is to express an opinion on Mott Community College's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133 *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OBM Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Mott Community College's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Mott Community College's compliance with those requirements.

In our opinion, Mott Community College complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements that is required to be reported in accordance with OMB Circular A-133 and is described in the accompanying schedule of findings and questioned costs as item 2005-01.

**Internal Control over Compliance**

The management of Mott Community College is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Mott Community College's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information of the Board of Trustees, management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

PLANTE & MORAN, PLLC

October 14, 2005

**Mott Community College**
**Schedule of Expenditures of Federal Awards**
**For the Year Ended June 30, 2005**

| | Pass-through Project # | CFDA | Approved Grant Amount | Accrued (Deferred) Amount 06/30/04 |
|---|---|---|---|---|
| U.S. Department of Education: | | | | |
| Direct Federal Programs: | | | | |
| Student Financial Assistance Programs: | | | | |
| Supplemental Educational Opportunity Grants: | | 84.007 | | |
| Supplemental Educational Opportunity Grant | 03-04 | | $ 351,266 | $ 60,525 |
| Supplemental Educational Opportunity Grant | 04-05 | | 351,266 | - |
| Total Supplemental Education Opportunity Grants | | 84.007 | 702,532 | 60,525 |
| Pell Grants: | | 84.063 | | |
| Pell Grant | 03-04 | | 9,361,106 | 233,905 |
| Pell Grant | 04-05 | | 10,246,511 | - |
| Total Pell Grants | | 84.063 | 19,607,617 | 233,905 |
| Federal Work Study: | | 84.033 | | |
| Federal Work Study | 04-05 | | 282,322 | - |
| Total Federal Work Study | | 84.033 | 282,322 | - |
| Total Student Financial Assistance Programs | | | 20,592,471 | 294,430 |
| Student Support Services: | | 84.042 | | |
| Student Support Services 03-04 | 03-04 | | 343,704 | 13,708 |
| Student Support Services 04-05 | 04-05 | | 343,704 | - |
| Total Student Support Services | | 84.042 | 687,408 | 13,708 |
| Upward Bound: | | 84.047 | | |
| Upward Bound | 03-04 | | 339,659 | 22,720 |
| Upward Bound | 04-05 | | 339,659 | 18,441 |
| Upward Bound | 05-06 | | 339,659 | - |
| Total Upward Bound | | 84.047 | 1,018,977 | 41,161 |
| Total Direct Federal Programs | | | 22,298,856 | 349,299 |
| Passed Through Michigan Department of Education: | | | | |
| Vocational Education: | | 84.048 | | |
| Regional Allocation 03-04 | various | | 879,937 | 125,371 |
| Regional Allocation 04-05 | various | | 958,965 | - |
| Regional Allocation 05-06 | various | | 927,085 | - |
| Fast Track | | | 8,000 | - |
| Local Administration 03-04 | | | 21,000 | 17,855 |
| Local Administration 04-05 | | | 18,400 | - |
| Total Vocational Education | | 84.048 | 2,813,387 | 143,226 |
| Total passed through Michigan Department of Education | | | 2,813,387 | 143,226 |

| Current Year Expenditure | Current Year Receipts | Accrued (Deferred) Amount 06/30/05 |
|---|---|---|
| $ - | $ 60,525 | $ - |
| 297,087 | 255,207 | 41,880 |
| 297,087 | 315,732 | 41,880 |
| - | 233,905 | - |
| 10,204,297 | 9,900,116 | 304,181 |
| 10,204,297 | 10,134,021 | 304,181 |
| 282,322 | 248,199 | 34,123 |
| 282,322 | 248,199 | 34,123 |
| 10,783,706 | 10,697,952 | 380,184 |
| 36,242 | 49,950 | - |
| 268,493 | 230,169 | 38,324 |
| 304,735 | 280,119 | 38,324 |
| - | 22,720 | - |
| 305,429 | 308,857 | 15,013 |
| 32,151 | - | 32,151 |
| 337,580 | 331,577 | 47,164 |
| 11,426,021 | 11,309,648 | 465,672 |
| (2,473) | 122,898 | - |
| 958,963 | 765,146 | 193,817 |
| 274 | - | 274 |
| 7,224 | 2,973 | 4,251 |
| - | 17,855 | - |
| 17,000 | 17,852 | (852) |
| 980,988 | 926,724 | 197,490 |
| 980,988 | 926,724 | 197,490 |

(continued)

**Mott Community College**
**Schedule of Expenditures of Federal Awards**
**For the Year Ended June 30, 2005**

| | Pass-through Project # | CFDA | Approved Grant Amount | Accrued (Deferred) Amount 06/30/04 |
|---|---|---|---|---|
| U.S. Department of Education: - (continued) | | | | |
| Passed through Genesee Intermediate School District: | | | | |
| Technical Preparation Education: | | 84.243 | | |
| Technical Preparation Education 03-04 | | | 92,658 | 92,658 |
| Technical Preparation Education 04-05 | | | 91,635 | - |
| Total Technical Preparation Education | | 84.243 | 184,293 | 92,658 |
| Total passed through Genesee Intermediate School District | | | 184,293 | 92,658 |
| Total U.S. Department of Education | | | 25,296,536 | 585,183 |
| U. S. Department of Health and Human Services: | | | | |
| Direct Federal Programs: | | 93.925 | | |
| Scholarships for Disadvantaged Students | 03-04 | | 159,774 | 2,000 |
| Scholarships for Disadvantaged Students | 04-05 | | 224,909 | - |
| Total Direct Federal Scholarships for Disadvantaged Students | | 93.925 | 384,683 | 2,000 |
| Passed through Genesee County Community Action Resource Department: | | 93.600 | | |
| CDA Head Start | 02-03 | | 47,985 | 6,556 |
| CDA Head Start Personnel | 02-03 | | 15,000 | 421 |
| Total passed through Genesee County Community Action Resource Dept | | 93.600 | 62,985 | 6,977 |
| Passed through the National Youth Sports Corporation: | | 93.570 | | |
| National Youth Sports Program 2004 | | | 60,000 | (37,671) |
| National Youth Sports Program 2005 | | | 62,476 | - |
| Total passed through National Youth Sports Corporation | | 93.570 | 122,476 | (37,671) |
| Total U. S. Department of Health and Human Services | | | 570,144 | (28,694) |
| U.S. Department of Labor: | | | | |
| Direct Federal Programs: | | 17.261 | | |
| Workforce Development Institute for Simulation Technology | | | | |
| Workforce Development Institute for Simulation Technology | | | 1,275,000 | 71,027 |
| Workforce Development Institute for Simulation Technology | | | 1,000,000 | 17,856 |
| Workforce Development Institute for Simulation Technology | | | 824,605 | - |
| Total Workforce Development Institute for Simulation Technology | | 17.261 | 3,099,605 | 88,883 |
| Total U. S. Department of Labor | | | 3,099,605 | 88,883 |
| U.S. Department of Justice: | | | | |
| Passed through National Police Athletic Leagues: | | 16.541 | | |
| Police Athletic League Youth Enrichment Program | | | 15,224 | (7,653) |
| Police Athletic League Youth Leadership Council | | | 5,000 | (960) |
| Total passed through National Police Athletic Leagues | | 16.541 | 20,224 | (8,613) |
| Total U.S. Department of Justice | | | 20,224 | (8,613) |

| Current Year Expenditure | Current Year Receipts | Accrued (Deferred) Amount 06/30/05 |
|---|---|---|
| - | 92,658 | - |
| 88,691 | 13,794 | 74,897 |
| 88,691 | 106,452 | 74,897 |
| 88,691 | 106,452 | 74,897 |
| 12,495,700 | 12,342,824 | 738,059 |
| - | 2,000 | - |
| 79,500 | 72,500 | 7,000 |
| 79,500 | 74,500 | 7,000 |
| - | 6,556 | - |
| - | 421 | - |
| - | 6,977 | - |
| 59,871 | 20,635 | 1,565 |
| 1,376 | 42,537 | (41,161) |
| 61,247 | 63,172 | (39,596) |
| 140,747 | 144,649 | (32,596) |
| 562,501 | 633,528 | - |
| 272,816 | 176,774 | 113,898 |
| 73,745 | 1,766 | 71,979 |
| 909,062 | 812,068 | 185,877 |
| 909,062 | 812,068 | 185,877 |
| 12,737 | 5,084 | - |
| 3,817 | 2,857 | - |
| 16,554 | 7,941 | - |
| 16,554 | 7,941 | - |

(continued)

**Mott Community College**
**Schedule of Expenditures of Federal Awards**
**For the Year Ended June 30, 2005**

| | Pass-through Project # | CFDA | Approved Grant Amount | Accrued (Deferred) Amount 06/30/04 |
|---|---|---|---|---|
| U.S. Department of Housing and Urban Development: | | | | |
| Community Outreach Partnership Centers | | 14.511 | | |
| Community Outreach Partnership Centers | | | 398,936 | - |
| Total Community Outreach Partnership Centers | | 14.511 | 398,936 | - |
| Workforce Development Institute for Simulation Technology | | 14.246 | | |
| Workforce Development Institute for Simulation Technology | | | 498,900 | 46,004 |
| Workforce Development Institute for Simulation Technology | | | 268,245 | 429 |
| Total Workforce Development Institute for Simulation Technology | | 14.246 | 767,145 | 46,433 |
| Total U.S. Department of Housing and Urban Development | | | 1,166,081 | 46,433 |
| Army Research Office: | | | | |
| Passed through the Academy of Applied Science | | | | |
| Research and Engineering Apprenticeship : | | 12.431 | | |
| Research and Engineering Apprenticeship 04-05 | | | 5,000 | (1,479) |
| Research and Engineering Apprenticeship 05-06 | | | 5,200 | - |
| Total Army Research Office | | 12.431 | 10,200 | (1,479) |
| Office of State and Local Domestic Preparedness Support (OSLDPS): | | 16.007 | | |
| Passed through the State of Michigan: | | | | |
| 2003 State Homeland Security Grant Program (SHSGP) | | | 4,000 | 1,645 |
| Passed through Genesee County | | | | |
| 2003 State Homeland Security Grant Program Part II (SHSGP) | | | 4,900 | 1,448 |
| Total Office of Local Domestic Preparedness Support | | 16.007 | 8,900 | 3,093 |
| Other Federal Programs: | | | | |
| National Science Foundation: | | | | |
| Manufacturing Simulation Technology Project | | 47.076 | 719,760 | 33,249 |
| National Endowment for the Humanities: | | | | |
| New Media Classroom | | 45.162 | 3,900 | 3,900 |
| U.S. Department of Commerce: | | | | |
| Technology Opportunities Program | | 11.552 | 411,567 | 33,310 |
| Total Other Federal Programs | | | 1,135,227 | 70,459 |
| Total Federal Awards | | | $ 31,306,917 | $ 755,265 |

| Current Year Expenditure | Current Year Receipts | Accrued (Deferred) Amount 06/30/05 |
|---|---|---|
| 61,524 | - | 61,524 |
| 61,524 | - | 61,524 |
| 97,748 | 66,434 | 77,318 |
| 128,343 | 128,605 | 167 |
| 226,091 | 195,039 | 77,485 |
| 287,615 | 195,039 | 139,009 |
| 1,479 | - | - |
| - | 5,200 | (5,200) |
| 1,479 | 5,200 | (5,200) |
| 2,355 | 4,000 | - |
| 3,933 | 2,610 | 2,771 |
| 6,288 | 6,610 | 2,771 |
| 102,690 | 102,300 | 33,639 |
| - | 3,900 | - |
| 115,041 | 33,337 | 115,014 |
| 217,731 | 139,537 | 148,653 |
| $ 14,075,176 | $ 13,653,868 | $ 1,176,573 |

**Mott Community College**
**Notes to Schedule of Expenditures of Federal Awards**
**Year Ended June 30, 2005**

1. Significant accounting policies

   a. Mott Community College (the "College") is a Michigan community college, with its main campus located in Flint, Michigan and satellite campuses in Genesee, Lapeer, and Livingston Counties.

   b. The accompanying schedule of expenditures of federal awards includes the federal grant activity of Mott Community College and is presented on the same basis of accounting as the basic financial statements. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.

2. All required grant matches were made.

3. Reconciliation of revenues per the basic financial statements versus the schedule of expenditures of federal awards is as follows:

| | |
|---|---|
| Federal revenues – basic financial statements | $14,337,427 |
| State contracts shown on basic financial statements as federal revenues | (262,251) |
| Federal expenditures per the schedule of expenditures of federal awards | $14,075,176 |

**Mott Community College**
**Schedule of Findings and Questioned Costs**
**Year Ended June 30, 2005**

## Section I – Summary of Auditor's Results

### Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? ____ Yes __X__ No

Reportable condition(s) identified that are not considered to be material weaknesses? ____ Yes __X__ None reported

Noncompliance material to financial statements noted? ____ Yes __X__ No

### Federal Programs

Internal control over major program(s):

Material weakness(es) identified? ____ Yes __X__ No

Reportable condition(s) identified that are not considered to be material weaknesses? ____ Yes __X__ No

Type of auditor's report issued on compliance For major programs: Unqualified

Any audit findings disclosed that are required to be reported In accordance with Section 510(a) of Circular A-133 __X__ Yes ____ No

Identification of major programs:

| CFDA Numbers | Name of Federal Program or Cluster |
|---|---|
| 84.007 | Supplemental Educational Opportunity Grant |
| 84.033 | Federal Work Study |
| 84.063 | Pell Grant |
| 84.048 | Vocational Education |
| 84.042 | Student Support Services |
| 84.047 | Upward Bound |
| 17.261 | Workforce Development Institute for Simulation Technology |

Audit qualified as low-risk auditee __X__ Yes ____ No

(continued)

## Part II – Federal Programs Audit Findings

Findings and questioned costs relating to federal awards:

2005-01

| | |
|---|---|
| Program: | Student Financial Assistance Programs |
| Finding type: | Noncompliance |
| Criteria: | Return of Title IV funds - If a student who has received Title IV funds withdraws from the semester completely, the amount of Title IV funding earned by the student must be calculated. If the amount disbursed to the student exceeds the amount earned by the student, then the unearned amounts must be returned to the federal government. |
| Condition: | Institution is not, in all instances, making returns/refunds of Title IV funds related to students who do not officially withdraw from classes within the 30-day requirement. |
| Questioned costs: | $-0- |
| Context: | Certain returns/refunds of Title IV funds were not given back to the federal government within 30 days of withdrawal. During our discussions with the Financial Aid Office regarding the College's pro-rata refund procedures, we were informed that due to the laborious manual process to determine the withdrawal date, related to students who do not officially withdraw from classes, some refunds were not returned to the Federal Government within the 30-day Title IV requirement. We selected a small sample of returns to evaluate timeliness and it appears the College had instances where the refunds were made after the 30-day requirement. It should be noted however, that the College is calculating pro-rata refunds properly and for all other cases where students officially withdraw from classes, the refunds are calculated and returned within the 30-day requirement. |
| Cause and effect: | Processing return of funds on unofficial withdrawals is a time consuming procedure, often taking longer than 30 days to adequately research the history. |
| Recommendation: | Return of funds should be made within the 30-day required period. |
| Management Response: | A new attendance system is currently being implemented in the 2005-2006 fiscal year that will streamline the pro-rata refund process to allow the College to be in compliance with the 30-day requirement. |

**Mott Community College**
**Summary Schedule of Prior Year Findings and Questioned Costs**
**June 30, 2005**

There were no prior year findings and questioned costs.

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September 23, 2005

Board of Trustees
Mott Community College
Flint, Michigan

We have recently completed our audit of the financial statements of Mott Community College for the year ended June 30, 2005. The purpose of this communication is to provide you with additional information regarding the scope and results of our audit that may assist you with your oversight responsibilities of the financial reporting process for which management is responsible. This report is intended solely for the use of the Board of Trustees and others within the organization.

**Auditor's Responsibility under Generally Accepted Auditing Standards**

We conducted our audit of the financial statements of Mott Community College (Organization) in accordance with generally accepted auditing standards. The following paragraphs explain our responsibilities under those standards.

Management has the responsibility for adopting sound accounting policies, for maintaining an adequate and effective system of accounts, for the safeguarding of assets and for devising an internal control structure that will, among other things, help assure the proper recording of transactions. The transactions that should be reflected in the accounts and in the financial statements are matters within the direct knowledge and control of management. Our knowledge of such transactions is limited to that acquired through our audit. Accordingly, the fairness of representations made through the financial statements is an implicit and integral part of management's responsibility. We may make suggestions as to the form or content of the financial statements or even draft them, in whole or in part, based on management's accounts and records. However, our responsibility for the financial statements is confined to the expression of an opinion on them. The financial statements remain the representations of management.

The concept of materiality is inherent in the work of an independent auditor. An auditor places greater emphasis on those items that have, on a relative basis, more importance to the financial statements and greater possibilities of material error than with those items of lesser importance or those in which the possibility of material error is remote. For this purpose, materiality has been defined as "the magnitude of an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement."

An independent auditor's objective in an audit is to obtain sufficient competent evidential matter to provide a reasonable basis for forming an opinion on the financial statements. In doing so, the auditor must work within economic limits; the opinion, to be economically useful, must be formed within a reasonable length of time and at reasonable cost. That is why an auditor's work is based on selected tests rather than an attempt to verify all transactions. Since evidence is examined on a test basis only, an audit provides only reasonable assurance, rather than absolute assurance, that financial statements are free of material misstatement. Thus, there is a risk that audited financial statements may contain undiscovered material errors or fraud. The existence of that risk is implicit in the phrase in the audit report, "in our opinion."

**Significant Accounting Policies**

Auditing standards call for us to inform you regarding the initial selection of, and change in, significant accounting policies or their application. In addition, we are expected to inform you about the methods used to account for significant unusual transactions and the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus. There were no significant unusual transactions or controversial or significant emerging areas for which new accounting policies were needed.

**Management Judgments and Accounting Estimates**

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Auditing standards call for us to report to you on accounting estimates that are particularly sensitive because of their significance to the financial statements or because of the possibility that future events affecting them may differ markedly from management's current judgments. Further, we are expected to report to you about the process used by management in formulating particularly sensitive accounting estimates and about the basis for our conclusions regarding the reasonableness of those estimates. We noted no matters related to sensitive accounting estimates.

**Audit Adjustments**

Auditing standards call for us to report to you significant audit adjustments that, in our judgment, may not have been detected except through the auditing procedures we performed. As a result of our audit, no significant adjustments were made to the financial statements.

Auditing standards also require us to inform the audit committee about uncorrected possible financial statement adjustments identified by us during the current engagement and pertaining to the latest period presented, which were determined by management to be immaterial, both individually and in the aggregate, to the financial statements taken as a whole. There were two unrecorded possible financial statement adjustments.

**Disagreements with Management**

In the process of conducting an audit, various matters will be discussed with management. In that process, significant differences of opinion may arise regarding the scope of the audit, the application of accounting principles, disclosures to be included in the Organization's financial statements or the wording of our report. In the interest of keeping you informed of all significant matters, such differences are required to be reported to you even though they are satisfactorily resolved. There were no disagreements with management over the application of accounting principles or the basis for management's judgments about accounting estimates. Additionally, there were no disagreements regarding the scope of the audit, disclosures to be included in the financial statements or the wording of the auditor's report.

**Consultation with Other Accountants**

When management consults with other accountants about significant accounting and auditing matters, auditing standards require that we present our views on those matters to you. To our knowledge, there were no such consultations with other accountants.

**Comments and recommendations**

**1. Capital Assets**

During our audit we noted some improvements that could be made to the procedures used to account for capital asset purchases.

- Asset purchases are being added to the Inventory system based on Purchase Orders that are issued rather than the ultimate invoice that is received from the vendor upon receipt of the purchased assets. There can be differences in final actual costs and also the items that are received which can cause the capital asset inventory to not be accurate.
- Staff who are responsible for maintenance of the capital asset inventory system are not trained regarding procedures to follow to record partial disposals of a previously tagged item, or additions/modifications to existing capital assets. Also, information about disposals or changes to capital assets is often not communicated to the staff.

We would recommend the accounting department work with the receiving personnel to develop procedures to properly account for additions and disposals of capital assets and that periodic checks be done to reconcile the inventory data with supporting details.

**2. Student Financial Aid Pro-rata Refunds**

There is a process required by the Federal Student Financial Aid grants for the College to calculate and submit pro-rata refunds back to the government for students that withdraw from the college or receive a failing grade in all classes. Due to unexpected vacancies and the complexity surrounding the manual process of attendance verification, the process to compute the pro-rata refunds took longer than the 30 day refund timeline required by the grants for the fiscal year ended June 30, 2005.

The College is implementing a system for documenting attendance records which should help streamline the process. We urge adequate resources be applied to the task to assure that the College meets the refund timeline in the future.

We welcome any questions you may have regarding the foregoing comments and we would be happy to discuss any of these or other questions that you might have at your convenience.

Sincerely,

**PLANTE & MORAN, PLLC**

Tadd Harburn, CPA